

The Analysts Journal

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MAY 1958

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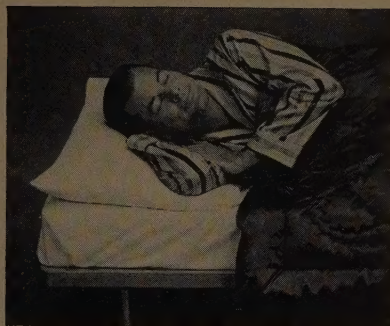
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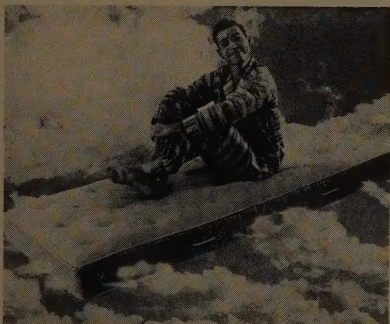
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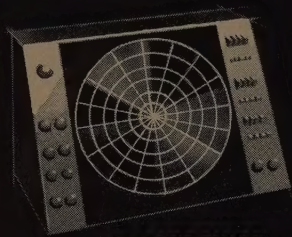
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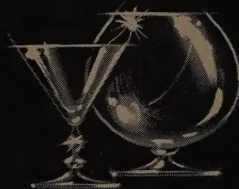
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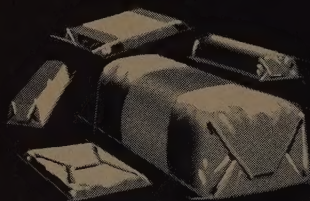
ELECTRONICS



GLASS



CERAMICS



FOOD WRAPPING



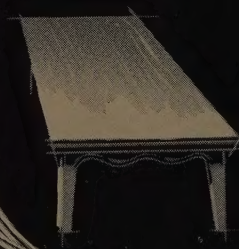
BUILDING



PORCELAIN ENAMEL



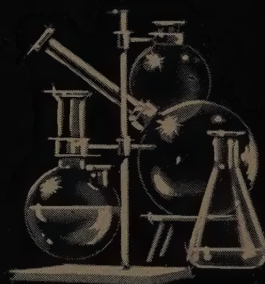
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FURNITURE



WHEELED GOODS



CHEMICALS

THESE ARE SOME OF THE INDUSTRIES

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We have the capacity to meet unusual demands, the flexibility to fit smoothly into another manufacturer's program. Ours is a broad background of

multiple industry knowledge and experience from the production viewpoint. This is our highest skill, the thing we know how to do best.

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STEEL



FERTILIZERS & INSECTICIDES



FARM EQUIPMENT



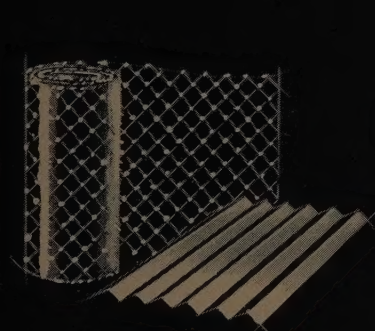
STORAGE BATTERY



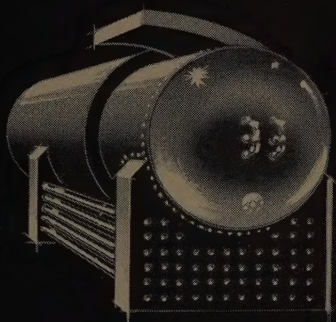
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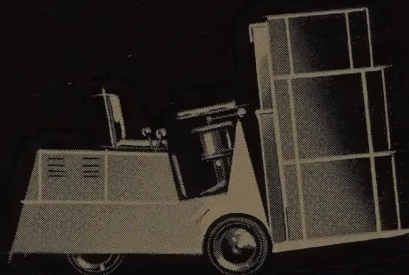
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POWER EQUIPMENT



MATERIAL HANDLING

UCCESSFULLY SERVED BY EAGLE-PICHER.

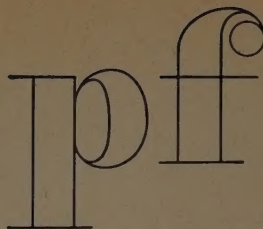
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extruded rubber, plastics, waxed paper and cellophane food wrappers, diatomaceous earth, industrial and commercial insulation, germanium, silicon, and many others. Our manufacturing and research activities successfully supplement those of our customers. Perhaps you may find our varied experience of value to you.

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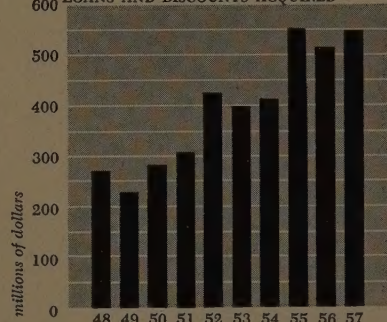


1957: THE MOST SUCCESSFUL YEAR IN THE HISTORY OF PACIFIC FINANCE CORPORATION

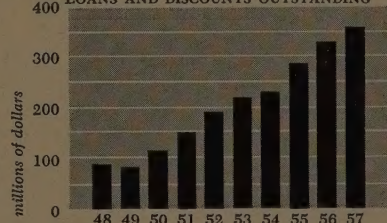
ANNUAL REPORT SUMMARY

	1957	1956
VOLUME OF BUSINESS		
Loans and Discounts Acquired	\$552,339,298	\$527,975,911
Net Insurance Premiums Written . . .	8,703,297	7,345,275
LOANS AND DISCOUNTS OUTSTANDING . . .		
	\$366,595,144	\$330,826,053
BORROWED AND EQUITY CAPITAL		
Notes and debentures due within one year	\$197,835,500	\$180,939,000
Long term debt (unsubordinated) . . .	67,650,000	73,650,000
Subordinated debt	46,234,000	36,617,000
Preferred stock	7,442,100	7,942,100
Common stock and surplus	46,559,506	37,065,084
Total	\$365,721,106	\$336,213,184
EARNINGS		
Total income	\$ 56,326,384	\$ 48,777,480
Operating income (before interest) . .	24,667,236	20,508,900
Interest and debt expense	12,729,321	10,396,364
U. S. and Canadian income taxes . . .	5,530,000	5,150,000
Net income	6,407,915	4,962,536
Preferred dividend requirements . . .	360,334	322,730
Net income for common stock	6,047,581	4,639,806
Average number of shares outstanding	1,169,644	1,083,883
Earned per share	\$5.17	\$4.28
Dividends declared per share . . .	\$2.30	\$2.00
NUMBER OF HOLDERS OF COMMON STOCK . .		
	4,814	3,565
NUMBER OF OFFICES		
	318	312

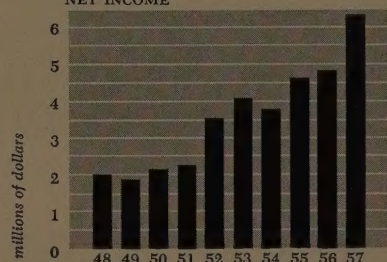
600 **LOANS AND DISCOUNTS ACQUIRED**



400 **LOANS AND DISCOUNTS OUTSTANDING**



6 **NET INCOME**



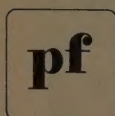
*As a special feature, our 1957 Annual Report
condenses certain significant data included in the Federal Reserve Board's
recent six-volume study of consumer instalment credit.
Copies of our Annual Report available upon request.*

PACIFIC FINANCE CORPORATION

EXECUTIVE OFFICES: 621 South Hope Street, Los Angeles 17
NEW YORK FINANCIAL OFFICE: 15 Broad Street, New York 5

Our Subsidiaries include:

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Motors Acceptance Corporation
First Credit Corporation
Olympic Insurance Company
Marathon Insurance Company
Pacific Fidelity Life Insurance Company
Pacific Finance Corporation of Canada Ltd.
Pacific Finance Credit Limited (Canada)
Boynton Acceptance Company Limited (Canada)



The Analysts Journal

MAY
1958

LOS ANGELES — ENTICING GROWTH CITY

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NUMBER 2

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PFIZER:

A Record Year in '57...

A Vigorous Faith in '58

*...demonstrated by \$60,000,000
capital expansion program*



The facilities you see here
are either under construction
or in the blueprint stage.

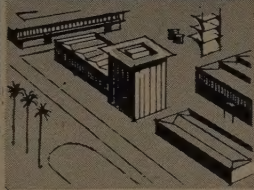
Research Laboratory—Groton, Conn.



Distribution Center—Atlanta, Ga.



Fermentation Plant—Brazil



Pharmaceutical Plant—Mexico



Distribution Center—Clifton, N. J.



Fermentation Plant—Argentina



Pharmaceutical Plant—Turkey



Pharmaceutical Plant—Colombia



The year 1957 was the best in Pfizer's 108 year history. Heavy demand for Pfizer chemicals, pharmaceuticals and agricultural products raised sales and earnings to record levels. Dividends on the common stock were increased for the seventh consecutive year.

To stay apace of changing world conditions, Pfizer continues to keep an eye on tomorrow. During 1957, Pfizer "tomorrow-mindedness" took these forms:

- Initiation of a \$60 million capital expansion program.
- Further diversification of ethical drug operations with a start in the field of vaccines.
- Entry on a modest scale into the petrochemical field.

Emphasis on research at Pfizer remains unflagging. In 1957, the Company invested over \$10 million in the search for new drugs and chemicals...and new applications for established products. A major contribution of Pfizer research was the discovery that glucosamine, a substance widely distributed in nature and in the human body, speeds the absorption of antibiotics—producing faster, higher and more prolonged blood levels, for more

effective control of disease. The first formulation embodying this agent is the well-tolerated COSA-TETRACYN*, introduced recently. COSA-SIGNEMYCIN* and COSA-TERRAMYCIN* will soon follow.

In 1958, you can look for further growth and diversification from Pfizer...and further support throughout the world for America's efforts to wage total peace.

*Trademark

another record year

	1957	1956
Net Sales	\$207,151,629	\$178,362,196
Earnings before income taxes	42,952,544	32,427,979
Income Taxes	20,044,000	14,174,000
Net Earnings	22,908,544	18,253,979
Dividends Paid:		
Common Stock	11,274,497	9,017,721
Preferred Stock	192,151	497,409
Earnings Retained	11,441,896	8,738,849
Per share of common stock:		
Earnings	\$4.22	\$3.36
Dividends paid	2.10	1.75

Since 1849

Science for the World's Well-Being

Pfizer

Chas. Pfizer & Co., Inc. 11 Bartlett Street, Brooklyn 6, N. Y.

U. S. Plants and Laboratories: Brooklyn, N. Y.; Groton, Conn.; Terre Haute, Ind.; Maywood, N. J.; Greensboro, N. C.

We will be very happy to send you a copy of the Pfizer Annual Report for 1957. The report contains a special article by John Gunther, one of the nation's foremost reporters and authors. Entitled "Inside Pfizer," the article gives readers an intimate picture of Pfizer written by a man of keen observation. For your copies write Secretary, Chas. Pfizer & Co., Inc., Dept. A, 11 Bartlett Street, Brooklyn 6, N. Y.

The annual meeting of shareholders will be held at the Company's Brooklyn headquarters, on Monday, April 21st, 1958 at 10 A.M. Eastern Standard Time. All shareholders are cordially invited to attend.

In 1957, the West needed MORE ENERGY THAN EVER BEFORE

*—and El Paso Natural Gas Company again set records
in supplying the West's fastest growing fuel*

In 1957, El Paso Natural Gas Company continued its biggest job—finding, transporting and furnishing energy for the West.

More energy was consumed than ever before by the millions of people and by the thousands of industries in this great area.

And natural gas played a bigger part than ever in supplying this energy.

Next year—and in decades to come—the use of natural gas in the West is expected to soar to even higher levels.

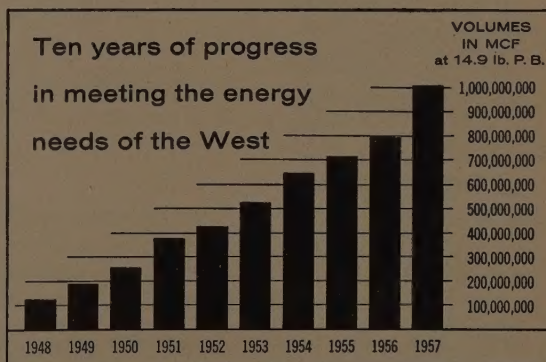
Of key importance is the fact that the controlled gas reserves of El Paso and its subsidiary, Pacific Northwest Pipeline Corporation, continue to increase—providing insurance that tomorrow's energy needs will be met. At year's end, such reserves stood at an all-time high of approximately 35.5 trillion cubic feet. And El Paso had completed negotiations with producers for long-term contracts for another 1.8 trillion cubic feet of gas.

These facts and other information relating to El Paso's operations are set forth in the Company's Annual Report for 1957, which has been mailed to 47,800 stockholders. This report summarizes progress made in serving the West in the past year, and includes for the first time operating figures for Pacific Northwest Pipeline Corporation. In 1957, operating revenues reached a record high of \$301,090,537, with consolidated net income of \$34,506,238. This is equal after dividends on Pre-

ferred Stocks to \$2.39 per share on 11,795,041 shares of Common Stock outstanding (excluding 5,226,903 shares of Common B Stock which did not participate in dividends in 1957).

Looking to the future, the Annual Report also outlines plans for expansion and describes pending projects (including a 511-mile pipeline from Twin Falls, Idaho, to Las Vegas, Nevada) to increase the volume of gas delivered daily to its markets.

Copies of El Paso's 1957 Annual Report to Stockholders are available by writing to El Paso Natural Gas Company, El Paso, Texas.



In 1957, El Paso Natural Gas Company furnished more than a trillion cubic feet of natural gas to customers in the West—a new record for the Company.

EL PASO NATURAL GAS COMPANY

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ment Analysts Seminar*

J. EUGENE BANKS managed private funds from 1931 to 1938, and wrote a market letter for Merrill Lynch, Pierce, Fenner & Beane. He then joined Brown Brothers, Harriman & Co., where he is head of the Institutional Department.

RALPH A. BING of the Commonwealth Investment Co. in San Francisco, is an authority on stock valuation, and a well-known writer on that subject.

CASPER M. BOWER heads the Investment Department of Corporate Capital Fund. He has directed market research for Curtiss-Wright Corporation.

NATHAN D. EDWARDS, Usarfant Comptrollers Office, Ft. Brooke, Puerto Rico, has done considerable work on designing an index for the use of individual investors. He is a statistical economist.

ROBERT FRANKLIN is an authority on the impact of money on economic trends. He resides in Missouri.

CREIGHTON HARTILL is an Assistant Vice-President and Syndicate Manager of Arnhold and S. Bleichroeder, Inc. His activities include all types of corporate finance.

ROBERT HEILBRUNN, of Heilbrunn & Company, has been in the investment business for twenty-five years. He is a security analyst and manager of several private investment funds. His particular interest is special situations.

WALTER E. HOADLEY, JR., economist and vice-president for Armstrong Cork Co., is a leading economic statistician and president of the American Statistical Association.

JOHN HOWARD LEWIS is head of the firm of J. H. Lewis & Co. His chief interest lies in aviation shares. Articles by Mr. Lewis on their future have appeared in a great many journals in the United States and Europe.

ALBERT C. LIEBERT, of Coffeyville, Kansas, has contributed articles and research studies on the importance of Security Analysis.

to This Issue

JOHN M. MITCHELL is Economic Consultant for Ebasco Services. He has been Economic Analyst for the U. S. State Department. His studies were largely in France, where he held a Fulbright Scholarship for market research.

ROGER F. MURRAY, Dean of the Columbia University School of Business, is one of the great financial and monetary experts of the United States. He was formerly economist for the Bankers Trust Co.

WILLIAM C. NORBY joined the Harris Trust Savings Bank in 1935, where he is now vice-president in charge of the Securities Analysis Department. Mr. Norby was president of the Investment Analysts Society of Chicago. He was chairman of the Board of Regents of the Financial Analysts Seminar and is continuing as a member of the Board.

ALEXANDER PINNEY, a senior partner of the firm of Craigmyle, Pinney & Co., has spent thirty-six years in studying investment finance. He is a director of several companies.

ROBERT SHAW, an investment counsel, is a partner of A. Vere Shaw & Company. He is a former instructor at the Harvard School of Business Administration.

SILVAN A. TESORIERE is chairman of the department of accounting in the School of Business of Fordham University. He is a certified public accountant of the State of New York, and the author of several books and articles on accounting.

T. C. THOMSEN, owner of the public relations firm of that name, has served in the public relations field since 1948. He is a specialist in business machine, heavy machinery, and construction companies.

FRANCIS J. CALKINS is professor of economics at Marquette University. He prepared the long cumulative index of Analysts Journal articles, and has now brought this compilation up to date. Journal readers and the staff are deeply indebted to Professor Calkins.

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TWIN CITIES SOCIETY OF SECURITY ANALYSTS
THE WASHINGTON SOCIETY OF INVESTMENT ANALYSTS

The Three-way Benefits of Good Telephone Earnings



USERS

EMPLOYEES

INVESTORS

They benefit the telephone customer by providing the means to expand and improve the service and do it economically.

They benefit employees because they help to provide good jobs.

They benefit the investor by protecting his savings and insuring a good and secure return on his investment.

There is, indeed, no basis for the belief that keeping telephone earnings low is a sure road to keeping rates low.

Such a philosophy, by limiting progress and long-pull economies, will lead almost always to the opposite result . . . poorer service at a higher price than the customer would otherwise have to pay.

In all lines of business, it's the companies whose earnings are good that are able to make the best products, provide the best service, and give the best values.

BELL TELEPHONE SYSTEM



The Financial Analysts Seminar

WILLIAM C. NORBY

IS SECURITY ANALYSIS an art or a science? This and many other related questions is likely to be the subject of much serious discussion and debate during the week of August 17, when 100 analysts will assemble on the campus of Beloit College for the third session of the Financial Analysts Seminar. Sponsored by the National Federation in collaboration with the University of Chicago School of Business, the first two Seminars (1956 and 1957) were acclaimed by all who attended as resounding successes. Under the management of its director, Professor Marshall D. Ketchum, of the School of Business, the Seminar has become a guiding star in the firmament of security analysis.

The Seminar assembles students for a week of addresses, forums and discussions with leading thinkers and practitioners in the fields of economics and investment. Lecturers are drawn from both academic and business spheres. In previous years the teaching staff included such well-known speakers as Paul McCracken, Sumner Slichter, Lester Chandler, Benjamin Graham, John Langum, and Dutton Morehouse, among others. The opportunity to hear, probe and debate their ideas in the quiet and relaxed atmosphere of the Beloit campus is unexcelled.

The academic program has two parts—analysis of the economy and the methodology of security analysis. It is axiomatic that the trend of the economy as a whole is basic to any security evaluation. Yet many analysts in their daily work must rely on the opinions of others for judgments on the economy without having time to evaluate them. Events of the last six months have amply demonstrated the overriding importance of a correct economic analysis in any investment decision. The Seminar, however, places primary emphasis on analytical principles rather than on a current economic forecast. Thus the investment analyst has a framework around which to build his own forecast from time to time, or better to evaluate the forecasts of others.

In the belief that monetary and fiscal policy is a key to all economic developments, the Seminar week begins with lectures on this subject by Professor Chandler of Princeton. Last year he explained how monetary policy in 1956-57 was directed toward restricting the money supply and the inflationary rise in prices and why the growth in velocity of money turnover probably had reached its zenith. It will be recalled that at the time of these lectures in 1957 inflationary psychology and expectations of continued boom were still quite strong in investment circles.

MORE TIME DEVOTED TO FISCAL POLICY THIS YEAR

The time devoted to monetary and fiscal policy has been expanded this year from three to five lectures. Professor Chandler "leads off" the Seminar again this summer, devoting his entire three lectures to monetary policy, while Professor Walter Heller of the University of Minnesota will give two lectures on fiscal policy. In view of the change

in the economic environment this year, monetary policy is likely to be discussed from a different viewpoint than in 1956 and 1957. Last year Professor Chandler suggested that perhaps easy money alone may not be effective in reversing a deflationary cycle, because the latent demand for goods to be made active by the release of liquid funds might not be as great now as at the end of World War II due to a substantially increased inventory of capital goods, housing and durable consumers goods in the hands of final users.

Consideration of the business cycle is covered in two lecture topics, entitled "Analysis of Business Conditions" and "Long Run Stabilizing and Destabilizing Forces." This year five lectures, by Professor Ezra Solomon of the University of Chicago and Dr. John Langum of Chicago, will cover these subjects. In 1957 Dr. Langum proved to be an economist with extremely penetrating foresight at the Seminar. He conceded that the economy today was inherently more stable than in the '30's, but he still foresaw possibilities of recessions of greater magnitude than the 1949 or 1954 declines, which were largely inventory cycles. He pointed out that in August 1957 we were at the late stages of an investment boom. The next major move in the economy, he said, would be down and that it would be more severe than in 1949 or 1954. Again emphasizing the interrelation of business and monetary policy, he suggested that the leveling off of both in money supply growth and in expansion of velocity would prevent growth and inflation of the economy over the next several years, contrary to expectations in investment circles. At the same time he did not foresee any important deflation of prices in a recession.

THE SECOND PHASE OF THE SEMINAR

The methodology of security analysis has not reached as high a state of development as economic analysis, though it is conceded that the latter has not achieved the certainty of the physical sciences. Consequently, the second phase of the Seminar program has been more experimental. In the first two sessions, Benjamin Graham, dean of security analysts and a Regent of the Seminar, gave stimulating lectures. Last year Mr. Graham presented new ideas on valuation of individual stocks in relation to the Dow-Jones Industrial Average, which he has since published in the November 1957 *Analysts Journal*. He put individual issues in relative perspective to the market as a whole by measurement of their comparative performance in terms of earning power (return on book value), earnings growth, earnings stability in a recession period, rate of dividend payout and book value. Results indicated that, of the thirty stocks on the Dow-Jones Industrial Average, eleven stocks were selling above their indicated value at the time of his lectures.

In general the Dow-Jones average last summer appeared

to be too high based on the various valuation formulae that had been discussed by Mr. Graham in 1956. The range of values by these formulae was 350-450, with a clustering around 400. The persistence of the market in selling above these long-range measures of value was puzzling, and Mr. Graham developed an approach which seemed to indicate that the Dow-Jones Average at around 500 was reflecting the expectation of a 50% earnings increase in the next ten years. However, Mr. Graham did not have too much confidence in that point of view, stating that there was no scientific approach to value, because we cannot know future earnings and dividends and the future discount rate. We tend to accept higher measures of value when the market is high and lower measures of value when the market is low. Events in the six months since the Seminar was held indicate that perhaps a formula for valuing the Dow-Jones Average has some merit after all, as the average has returned closer to these central values.

Mr. Graham spent some time examining International Business Machines as a study in valuation, because it offered clues as to inherent quality differentials among common stocks, and because it was a good check on the rationale of stock market levels. On Tuesday evening of the Seminar a panel discussion on "What Is the Intrinsic Value of IBM Common Stock" was lead by three seminarians: Jim Close of Syracuse, Bud Newquist of New York and Howard Tharsing of San Francisco. Two of the discussants, using long range extrapolations of the current trend of IBM earnings, but checked by a current analysis of the company, came to the conclusion that IBM was still reasonably valued as a growth stock at a then price-earnings ratio of about 33x, based on published earnings. The minority opinion that IBM was high at that time was based on the approach that at such elevated price-earnings ratios there is relatively little to be gained in the future in the way of capital gains, while the dividend rate during the holding period did not compensate for the risk that conditions might change and that IBM's future might not be as dynamic as its past. Some of those at the Seminar thought the majority view simply illustrated the lengths to which people would go to justify current high P/E ratios, but the real conclusion seemed to be that as yet we have no agreement in our methods of valuation which would produce an agreement as to the proper value for such an outstanding stock as IBM.

THE ROLE IN THE SEMINAR OF LEADING ANALYSTS

This year it is planned to call on leading analysts to a much greater extent in the methodology of security analysis part of the Seminar. It is believed by the Board of Regents that this will produce a more practical and valuable presentation on security analysis, and at the same time will stimulate active thinking toward a theory of evaluation. Messrs. Neidig, Vanderhyde, Anderson, Harris, Schreder and Macurda will give one or two lectures each on their basic approach to appraising security values. Harry Comer will give two lectures on the Theory of Market Action. Benjamin Graham will be absent this year on a tour of Russia.

Analysis of corporate earning power in general is as important as appraisal of individual securities. This year the Seminar is fortunate in securing Dr. Jules Bogen, New York University, who will give two lectures on "Long Run Factors Affecting Corporate Profits", and Professor Michael Gort, of the University of Chicago, who will lecture on trends in the analysis of industries, with particular emphasis on the analysis of supply, demand, cost and price relationships in specific industries. Current trends in corporate profits emphasize need for a broader understanding of how supply-demand factors operate in a cyclical economy.

Out of this experimentation and exposure to various ideas, perhaps a more rigorous theory of security evaluation will develop. Granted the inherent uncertainties in analyzing any aspect of human affairs, and especially the mercurial tendencies of common stocks, the Seminar leans to the view that there is still much room for development of a science of evaluation whereby value can be separated from current price, leading eventually to a closer approximation of value by price. "Art", i.e. judgment will always be an integral part of security evaluation, but it will have more sharply defined principles around which to build. Indeed, rigorous principles are part of any art—music, painting, poetry—and must be understood and followed by any artist to be successful. Similarly in law and medicine superior insight and perception are essential to success. There is a core of knowledge and principles which is basic to that insight and judgment. The Seminar hopes to further security analysis along the road to such professional standing, while at the same time stimulating 100 analysts each year to a broader perspective of economic and investment developments.

* * *

There are fundamental truths that lie at the bottom, the basis upon which a great many others rest, and in which they have their consistency. These are teeming truths, rich in store, with which they furnish the mind, and, like the lights of heaven, are not only beautiful and entertaining in themselves, but give light and evidence to other things, that without them could not be seen or known.

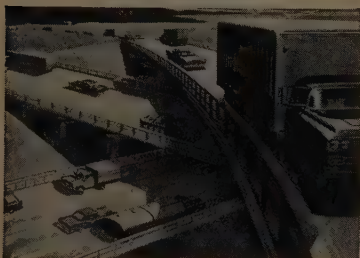
—John Locke.



COMMUNICATIONS



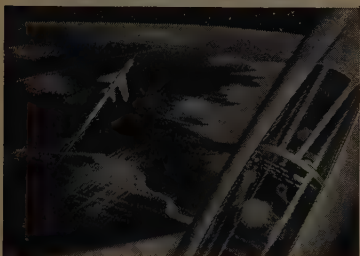
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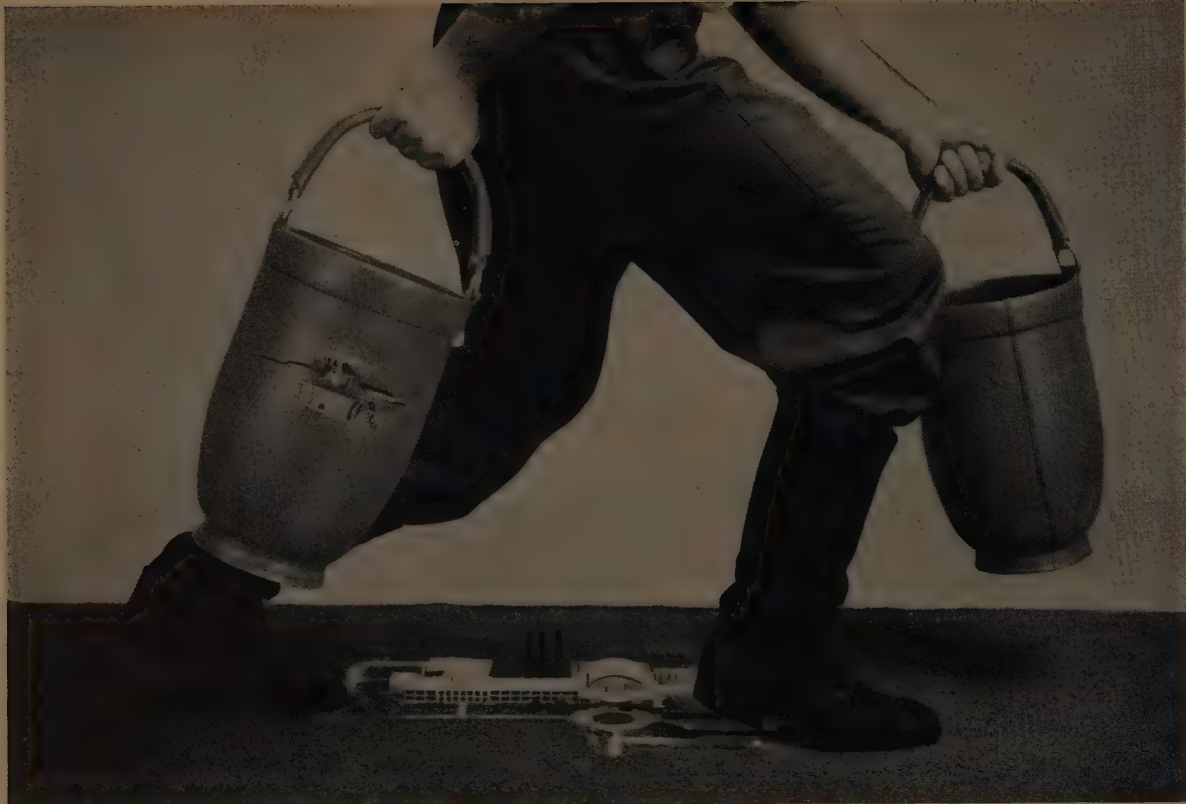
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DURKEE FAMOUS FOODS DIVISION
Products for consumers and the
food industries

Institutional Influences on the Stock Market

ROGER F. MURRAY

THE GROWING IMPORTANCE of institutional investors in the market for equity securities is very real and quite impressive. The flights of fancy taken by some observers from this factual base are a much greater tribute to the fertility of their imaginations than to the precision of their analytical skills. Perhaps the most rational, yet most stimulating, of the various ideas advanced is the probability of greater price stability for at least some, and perhaps many, common stocks in future years. This trend, if real, would greatly enlarge the market for equity capital and could be the basis for a major increase in the volume of new common stock financing. More companies would presumably pay out in dividends a higher proportion of earnings with greater confidence in their ability to sell new shares to meet a larger fraction of expansion requirements.

This is a fairly restrained flight of fancy, yet it is one unless we can assemble the facts to support it. We know that, in 1900, financial intermediaries held about 8% of the common stocks outstanding and that this fraction is probably now up to 25% or slightly more. In the same period, these institutions increased their share of the corporate bonds outstanding from 35% to around 90%. We can hardly say, therefore, that the equity market has become institutionalized in the same sense as we make this statement about the corporate bond market.

In terms of current activity, also, the institutional investor does not play a very important role. The transaction studies of the New York Stock Exchange, for example, over a period of several years show little change in the fraction of total trading attributable to institutions and intermediaries. The average of 15% compares with 60% for public individuals and 25% for members and non-member security dealers. Even when allowance is made for heavy institutional participation in "off-the-Board" transactions, it is evident that individual investors and professional traders dominate day-to-day and hour-to-hour price movements.

But statistics of ownership and activity do not tell the whole story. Even relatively small additions to the demand for stocks over a period of time may have important effects. To illustrate this point, during the five years 1946-1950, when stocks were chronically undervalued, one particular group of institutional investors composed of pension funds, insurance companies, and investment companies made net purchases of common stocks equivalent to 29% of net new issues of this type of security. During the subsequent five years, 1951-1955, of substantial upward revaluation of stocks, the same group of investors bought stocks equivalent in value to 35% of net additions to the supply. (These are not, of course, all of the institutional investors by any means.)

Although one should not ignore many other influences at work on the stock market, such as confidence in the business outlook and fear of inflation, I insist that there is more than coincidence in this sequence of events. The

Revenue Act of 1942 and subsequent tax laws made the income, estate, and gift tax structure really progressive, greatly curtailing the ability of the high-income bracket investor to supply new equity capital. When demand for such funds reappeared starting in 1946, we had a genuine shortage of equity money. This was reflected in high stock yields even though business was good and interest rates were low. But the shortage began to ease after 1950 as legislation was passed to permit New York life insurance companies and mutual savings banks to invest in equities for the first time, while trustees of personal trust funds were empowered to buy stocks in "legal" trusts to a limited extent. Most important of all was the impact of this wider acceptance of equities on the policies of non-insured private pension funds which put increasing amounts each year into this area of investment.

In a very real sense, then, the institutional investor has filled the shoes of the wealthy individual as an important supplier of new equity money. When pension funds currently invest \$800 million a year in equities, instead of \$100 million a year, as they did a decade ago, the increase is equivalent to almost a third of the average new money raised through common stock flotations during recent years. The contribution of mutual funds to the process of replacing the historical source of new equity capital is equally impressive. A large part of the new money assembled from middle-income groups by these organizations would not otherwise have been made available to the stock market.

There can be no question of the influence in a quantitative sense of these new suppliers of equity money. Without them it is difficult to see how the stock market could have functioned effectively during the years of postwar property. A market starved for funds received timely and substantial nourishment. The individual investor was not crowded out, but he found a new and active partner. This is a fact of the 1950's.

The standard portrait of the institutional investor in the minds of many people shows a sober finance committee of senior citizens filling great vaults with blue-chip stock certificates: buying but never selling, unimaginative and conservative in attitudes, and generally doing a mediocre job in a highly respectable manner. Even if such a portrait were ever entirely valid, which I doubt, it is certainly no longer typical. Investment company, pension fund, insurance company, and other institutional portfolio managers are operating in a keenly competitive environment with resources which can command the best talents available in the field of investment management. The pressure to produce superior results is absolutely unrelenting. Just because the goals are set in a longer time dimension than is typical for many individual investors does not mean that producing a combination of income and capital growth are not both real and pressing objectives.

Thinking of the institutional investors as a substitute for

the large individual investors of the past, can we conclude that a significant difference to the stock market results from this replacement? Some obvious differences are:

1. Investing without the objective of exercising control.
2. Investing without most of the tax problems of the individual.
3. Investing without the use of bank credit.
4. Investing in most cases a fund which will be growing for a long period in the future.
5. Investing a diversified portfolio with alternative forms of investment readily available.

Perhaps there are other important differences, but these five should suffice to show that if the same number of dollars pass through institutional instead of individual hands, they will have a different impact on the stock market. For example, more different blocks of stocks will be purchased, less credit will be employed in carrying securities and there will be more regularity and sobriety in investment decisions. Critics of the institutional investor would add that more lethargic, timid, and unimaginative investment policies will be followed; but I do not accept this addendum. The Fulbright Committee study of transactions by institutional investors during a thirty-four-month period ending in October 1955 shows aggregate sales of \$1,954 million, against purchases of \$3,467 million, with widespread differences of opinion among the portfolio managers represented.

Despite contrary evidence, there is a widespread belief that institutions favor the same stocks or at least a limited group of stocks, such as those of the 50 or 100 or 200 leading companies. The withdrawal of such issues from the floating supply, so runs the argument, results in the institutionally favored few selling at relatively high prices while the great mass of issues sell at bargain basement quotations. It would be most convenient if only this were a useful generalization. We could simply follow the institutions instead of doing our own thinking about stock values. Alas, the institutions do not agree on favorite stocks, they change their minds about them, and there is no unanimity about the desired characteristics for all purposes. Large institutional holdings in large companies are known to exist, but the fractions of total share capital owned show no clear relationship to either the size of the companies or the length of time during which they have enjoyed prominence.

It is possible to observe that institutions like to see good earning power, a progressive management, a strong competitive position, good control over costs, sound financial planning, and a favorable industry background. But most investors are looking for these same favorable factors. The institutional portfolio manager is under keen pressure to find them as soon as, or preferably sooner than, his neighbor.

THE QUESTION OF PRICE STABILITY

We may conclude, it seems to me, that the institutional investor, with a sophisticated and professional approach to the stock market if he is to hold his job very long, is making a positive contribution to price stability. Apart from the temporary aberrations which afflict all of us, he is not

quite so likely to be swept off his feet by the moods of enthusiasm and depression that distort stock prices from time to time. The failure of the market to follow new era thinking into the stratosphere in the summers of 1956 and 1957 may well be attributed in part to the sobriety of the institutional investor. Similarly, the cushioning of the more recent declines may be partly provided by the relative stability of institutional buying.

But to avoid exaggerating the stabilizing influence of the financial intermediaries, we should recall their modest role in the day-to-day transactions of the market place. In the short swings which may be generated by economic or political events, institutional buying and selling may not be very significant. Rather we should look to more protracted price movements to see the effects, particularly, I would emphasize, to observe what happens when the returns from equities become relatively attractive or unattractive in comparison with bond and mortgage yields.

One set of convenient measurements shows that, on the basis of current returns, stocks had lost much of their attractiveness by July 1956. The decline in prices to the February 1957 lows puts them momentarily back more closely in line. When interest rates dropped sharply in November of last year, stocks began to regain some of their past advantage. The fact that comparative yields were a reliable indicator of intermediate tops in the market in 1956 and 1957 is not a guarantee that this will always prove to be the case. But it seems logical to conclude that the greater the institutional participation in the stock market, the greater reason there will be for paying attention to yield spreads. In appraising the immediate outlook, I would judge that there would have to be a further widening of the spread before institutions will be greatly attracted to equities in the present environment of a recession. Part of this widening of the spread is likely to result from a further decline in the yields of fixed-income securities.

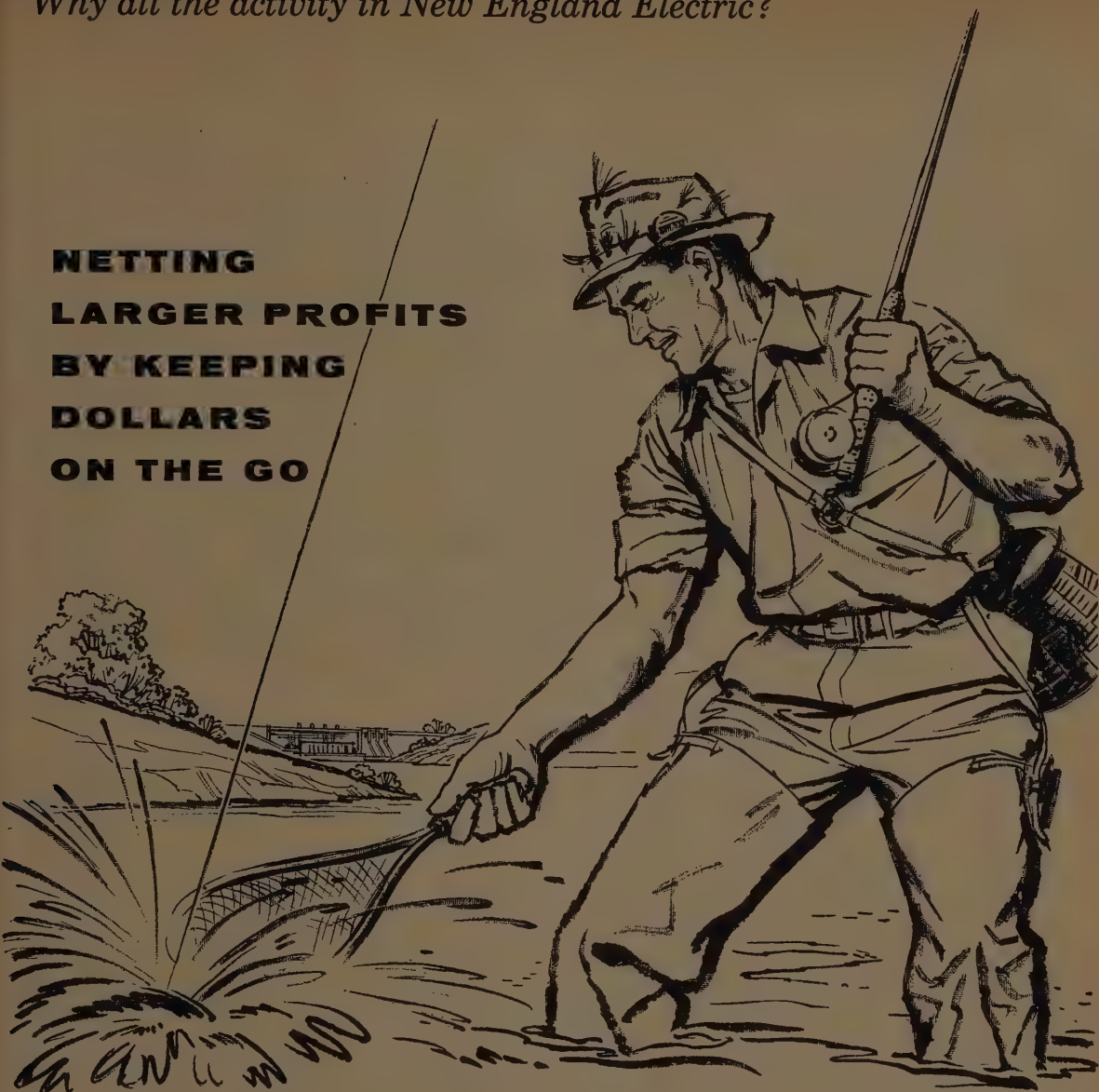
SOME TENTATIVE CONCLUSIONS

With due deference to the hazards of drawing any general conclusions about as unpredictable a phenomenon as stock prices, it is possible, by way of summary, to make a few tentative observations about institutional influences on the stock market:

1. Institutional investing in equities is not entirely a net addition to the supply of funds; it is in part only a replacement of other sources.
2. The participation of financial intermediaries in the stock market will grow gradually, rather than dramatically, over the years ahead.
3. As a consequence of this trend, the range of price fluctuations is likely to be narrower than in the past when the use of credit and the role of the promoter bulked larger in the picture.
4. Stocks are likely to sell more nearly on an investment basis, with more attention paid to factors such as earning power, current return, and basic quality.
5. Finally, these are all matters of a degree of change, not a transformation of the stock market into a sober, stable affair in which speculation is entirely absent.

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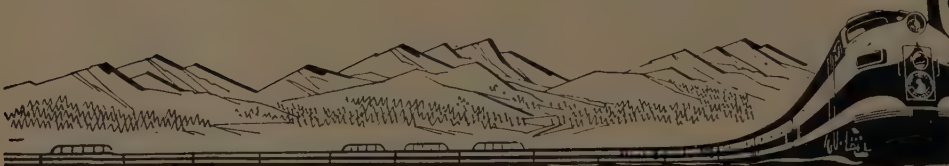


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Facing the Problems of 1958

WALTER E. HOADLEY, JR.

TO FIND THE REAL STATUS of the present economic situation one must recognize that business activity can be measured by knowing how people feel about it psychologically, and evaluating evidences.

Despite some confidence engendered by the United States "Explorer," business managements are much more cautious than they were a short time ago. Sentiment among executives seems to have declined to about the same low point as during the 1953-54 moderate down-turn in business. Similarly, consumers have become more hesitant and now appear to be less optimistic than at any time during the past five years. Thus, from a psychological standpoint one may consider the current business situation leaves a good deal to be desired.

The factual measures of business have a tendency to reflect on security prices. Nevertheless, it seems quite evident that actual declines in business generally are much more moderate than might be suggested by the reported changes in investment sentiment. The total volume of United States business is estimated to have declined roughly 1 to 2 per cent from the all-time peak in the third quarter of last year, but still compares very favorably with the level of a year ago. On the whole, prices continue at an all-time high. Personal income has dropped about 2 per cent, but still is roughly equal to the level at this same time last year. Further evidence of weakness is to be found in the decline in the stock market from its postwar peak, an upturn in business failures, and a drop in earnings by the vast majority of corporations in recent months.

One can say without hesitation that a crest has been reached in the postwar boom, and the present trend is moderately downward. Until quite recently there was a great deal of discussion concerning growth potentialities for the American economy. Recent business trends indicate that economic growth is not automatic, and those forecasted levels of production, sales, and profits must be achieved by work and not considered as coming with the passage of time.

AN INTERIM PERIOD

For several years it has seemed reasonable to anticipate an "interim period" between a tremendous postwar boom, such as has come to a close, and a new resurgence of general business activity. This "interim period" is inescapable for several reasons: an end has been reached in the artificial backlogs of demand which arises out of depression, war, and postwar conditions; a decline in family formation because of the low birth rate, as in the 1930's; a slow-up in spending for new plant and equipment because most near-term productive capacity goals have been realized; financial limitations posed by a general loss of liquidity, inadequate savings, and relatively tight money conditions; and some adjustment in international economic conditions reflecting

a much better balance between supply and demand in many sections of the world.

This is not to say that a serious economic adjustment lies in the offing. There are many underlying elements of strength. On economic grounds it appears reasonable to anticipate continuation of these "interim period" conditions of slow growth until population, obsolescence, and research—plus some possible changes in government policies—combine to give a new lift to the national economy. The current weakness in business involves a more fundamental, although still moderate, adjustment than the rolling adjustments which have characterized business on several other occasions since the end of World War II.

In forecasting circles these days a person is frequently asked—are you a member of the "60-day" club, the "6-months" club, or the "6-year" club? The reference, of course, is to the timing of the next marked upturn in business. The most commonly accepted forecast now is that general business will turn up noticeably during the second half of the year. The majority of members in the "6-months" club are counting on: (1) an end to the marked inventory liquidation which has taken place in recent months; (2) the impact of greater government appropriations and spending; (3) the resumption of vigorous consumer spending; and (4) some possible aftermath of a few major strikes during the late spring and summer.

A REASONABLE PROSPECT FOR 1958

Some intermittent improvement in business is a reasonable prospect later this year. Yet it is doubtful that changes in general business will be sufficiently great for individual industries or companies to get very excited about, or to suggest that a new persistent upward trend has been established in the economy.

People who live more or less from day to day may feel better if the spring and summer upturn in business occurs in many lines; when inventory liquidation slows or halts and some re-ordering begins; and larger government appropriations for defense and allied purposes would reflect an easing in certain restrictive economic policies, especially if accompanied by a tax cut. It is again apparent, in this important Congressional election year, that adverse changes in the business situation have loud political overtones. Certainly government can be counted upon as a positive supporting influence to business this year.

People who are looking for a sharp upturn in 1958, however, are likely to be disappointed when they continue to find keen competition on all sides, large amounts of new capacity still coming into production, industrial disputes, increasingly "choosy" buyers, and persistently declining capital expenditures. It could be too many people may have accepted membership in the "60-day" or "6-months" club on the assumption that the current adjustment is nearly

over, and there is only smooth sailing beyond into the 1960's.

Business is likely to be marked by an irregular course all year, without basic improvement or deterioration. In fact, during this "interim period" it should be possible to prove by selective statistics either that general business is getting stronger or weaker, but in the end observed changes do not promise to be very great. In short, this is no time for blind optimism or pessimism but for down-to-earth realism. Now is the time for individual industries and companies to demonstrate their capability. It may be necessary to re-examine our products, and to find new and unique products.


REAPPRAISE COSTS

We must take a fresh look at our costs. Business failures are moving up these days, largely because some managements have forgotten the critical importance of profits.

Unless costs are known, profits will remain unknown until perhaps it is too late. The trend in money rates is toward easing, but we should never forget that money always stays relatively tight for people who have not proved their ability to control costs and to use money wisely.

The key to profitable growth in 1958 may be in a much better understanding of research, markets, customers, products, personnel, and costs. Perhaps all this sounds fairly obvious.

The business environment in 1958 is likely to continue to be favorable. In fact, it will be very high by all historical standards. The American buying potential is still enormous. We must, however, adjust our thinking to "interim period" conditions and recognize that what we are now experiencing may be normal for a while, and that these conditions will reflect on security values.



**COMMON DIVIDEND
No. 100**

The Board of Directors today declared the following dividend:

70 cents per share on the Common Stock, payable June 16, 1958 to stockholders of record at the close of business May 15, 1958.

The Goodyear Tire & Rubber Co.
By Arden E. Firestone,
Secretary
April 7, 1958

THE GREATEST NAME IN RUBBER

RADIO CORPORATION OF AMERICA



Dividend Notice

The following dividends have been declared by the Board of Directors:

First Preferred Stock

87½ cents per share on the First Preferred Stock, for the period April 1, 1958 to June 30, 1958, payable July 1, 1958, to stockholders of record at the close of business June 9, 1958.

Common Stock

A quarterly dividend of 25 cents per share on the Common Stock, payable April 28, 1958, to stockholders of record at the close of business March 17, 1958.

ERNEST B. GORIN,
Vice President and Treasurer
New York, N. Y., March 7, 1958

A REPORT ON SOUTHERN NATURAL GAS SERVICE TO THE INDUSTRIAL SOUTHEAST IN

1957



GROSS REVENUES AND NET INCOME

of the Company during 1957 continued to climb to record levels. Net income was increased during the year despite substantially higher operating expenses. Dividends per share of common stock amounted to \$2.00 as compared to \$1.85 for the previous year.



SERVICES

supplied by the Company during 1957 reached a record number of industrial enterprises, gas distributing companies, pipelines and municipalities throughout the Industrial Southeast. The total volume of gas sold amounted to more than 316 billion cubic feet, the highest in the Company's history. The Company's management is continuing to plan for expansion of services to the Industrial Southeast and consequent benefits to consumers, stockholders and employees.

For a copy of our 1957 Annual Report, which contains detailed information about the Company's financial and service highlights during the year, write to Dep't. A J.



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- a train
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Super Chief

...your carefree ride through
the colorful Southwest Indian
Country on the Super Chief...
with the Turquoise Room,
famous private dining room.
Daily departures from
Chicago and Los Angeles.



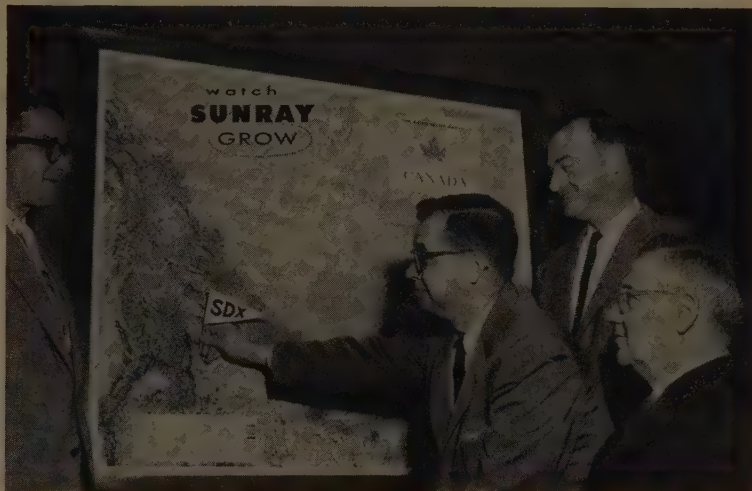
R. T. Anderson, Gen'l Pass. Traffic Mgr.
Santa Fe System Lines, Chicago 4

A New Outpost for Sunray

HOW MUCH OIL IS THERE IN CANADA? No one knows. Our neighbor to the North has so much land it will take years for oil men to explore it all.

THE OIL BOOM in Canada can be compared with similar ones in Oklahoma, Texas and California in years past. However, modern methods make exploration and drilling more systematic and scientific than was the case in the early days of oil booms in the U.S.A.

SEVERAL YEARS AGO Sunray developed an interest in several producing properties North of the border. Last year Sunray employees started on-the-spot exploration and producing work in Canada. Prior to this, all exploratory and production work in Canada was conducted by Sunray in association with other companies.



Sunray's exploration team checks the map of Canada to pinpoint the location of new offices in Calgary, Alberta.

LAST YEAR the company participated in the drilling of 27 wells in Canada. At the present time Sunray is participating in the drilling of three important exploratory tests in Southern Alberta. Gas deliveries from wells in Peace River, British Columbia, which Sunray has a sizeable interest have already started to U. S. markets.

SUNRAY MID-CONTINENT President W. C. Whaley says: "...our direct interests in Canada are being made with a long-range objective in mind. It is becoming more difficult to find oil in the U.S. and after you find it, to produce it. We believe Canada offers a real potential to strengthen our future."

D-X is the brand name of quality products manufactured by D-X Sunray Oil Company, a wholly-owned subsidiary

PRODUCERS
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MARKETERS



SUNRAY MID-CONTINENT
Oil Company

GENERAL OFFICES — SUNRAY BUILDING — TULSA, OKLAHOMA

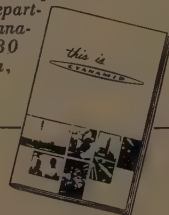


A new insecticide that "grows" right in the plant!

Now, for the first time, an insecticide has been developed that can be coated on the seeds and carried right into the growing plants. Thus, in early stages of growth, plants can be given their own "built-in" protection against insects. This new product, THIMET® systemic insecticide, is a pioneering development of Cyanamid's chemical research. It is already being used to control insect damage to young cotton plants, alfalfa and sugar beets—with dramatic success. Research is now going forward to apply its benefits to other crops.

Here is the beginning of a new era in insect control. The development of THIMET—a new application of chemical science to agriculture—is typical of the contributions Cyanamid chemistry is making to progress in many fields.

Information of interest about the organization, products and activities of American Cyanamid Company and its subsidiaries is contained in a new booklet, "This is Cyanamid." You may obtain a copy free on request. Address Public Relations Department, American Cyanamid Company, 30 Rockefeller Plaza, New York 20, N. Y.



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How the Economist Helps Business, Industry and the Investor

JOHN M. MITCHELL

"The progress which is to be expected in the physical sciences and arts, combined with the greater security of property, and greater freedom in disposing of it, . . . and with the more extensive and more skillful employment of the joint stock principle, afford space and scope for an indefinite increase of capital and production, and for the increase of population which is its ordinary accompaniment."—*John Stuart Mill, 1848.*¹

BUSINESS AND INDUSTRY are becoming increasingly more complex and are requiring more and more persons to specialize in certain aspects of their operations. By the same token, the investor in business and industry needs specialists to advise him in the choosing and timing of his purchases and sales. This trend to specialize has given economists their opportunity and they have acquired a new stature in the business world which they did not have and which will grow with the passing of time. Wherever large sums of money are at stake or the welfare of large numbers of persons must be planned for it has become increasingly necessary to obtain the advice of economists.

It was not many years ago that management in business and industry operated more or less independently of what the rest of business or industry did or of what was happening to the country as a whole. This was not so much by intention as by necessity. Management was in no better position to know than anyone else because the information about various kinds of business and industry and about economic conditions in the country was fragmentary or did not exist.

It was during this time of scarce and inadequate information that economics first took root. It developed in the hands of academicians and remained primarily an object for philosophers until after the turn of the century. While isolated attempts at gathering statistics and observing the operations of business have been made over the centuries, concrete data have been too few and far between to be of much practical purpose.

Since the end of the last world war, however, there has been a very rapid increase in the amount and quality of information about business, industry and the economy of the nation. It has undoubtedly contributed significantly to the unprecedented growth of the country in the last 12 years. Individual concerns and entire industries became more self-confident and grew more rapidly and more complex because of the economic information available. In the meantime, economics, which had concerned itself for many years with the theoretical discussion of the problems of

business and industry, found itself able to speak with a newly found authority. Economics was able to marshal much needed facts and figures to help management make decisions both for day-to-day operations as well as plans for the near and distant future of the particular firm.

FUNCTIONS OF THE ECONOMIST

In putting to use the great mass of business and economic information made available to the public by statisticians and others, the economist is concerned with interpreting it with reference to some particular question or problem facing the businessman, industrialist, or investor in a rational, unified, concise, and non-technical manner. It is generally recognized that for a going concern or an investor faced with maintaining and increasing the value of his portfolio the principal question or problem is the future and how to prepare for it. This is also precisely the principal function of the economist in the business world. He does this by making forecasts from time to time of what is likely to take place that will affect the profits of the particular firm, a few months, a year, several years or many years into the future. Whenever a new important economic or political event is reported, which is almost every day, he must also make forecasts on what effect such event will have on the prospects of the particular company or investment.

The difference between the periodic forecasts by an economist and his interpretations of day-to-day news is the manner in which management uses the information. The long-term forecasts are requested by management and are necessary for gauging inventory levels, planning or preparing for the expansion of the company's operations or in the type of business. In contrast, the day-to-day economic news analyses are necessary for adjusting the company's current operations to events whose timing or nature were unforeseen by the long-term forecasts. But in practice there is no hard and fast line of demarcation between long-term forecasts and the daily news interpretations because some of the latter will sooner or later make it necessary to change the long-term forecasts.

FORECASTS

Economic and business forecasting for present purposes is concerned only with quantitative measures. It is nothing new to be told, as in the quotation from John Stuart Mill at the beginning of this article, that there will be "an indefinite increase of capital and production" and population. The businessman, industrialist, and investor want to know what exactly to expect in the future and when.

One of the first principles of forecasting is to employ several techniques in arriving at the objective. This might be termed statistical triangulation wherein the forecast for the given year in the future is arrived at by three different

1. Principles of Political Economy, Vol. II., Charles C. Little and James Brown, Boston, 1848, page 252.

and separate calculations. Somewhere between the three independent forecasts the most probable forecast, which is not necessarily the average of the three, will be chosen and used.

Another principle of forecasting is to interrelate the whole to the parts and the parts to the whole. A very common forecasting technique is to project the over-all economic measure or statistic on the basis of certain factors which have influenced it in the past. The resulting forecast is then checked against forecasts of the principal components which have also been developed on the basis of factors which have influenced them in the past.

Both these principles are combined, of course, in arriving at the desired answer. If the forecast is of some over-all measure or aggregate such as gross national product (GNP), the total value of manufacturing production, or total profits of all manufacturing companies no further calculations are necessary. But very often such a forecast of an aggregate is made to establish a benchmark from which forecasts of certain components may be made, if that has not already been done. In fact, the only limitation on the detail into which the forecasts can go is the availability of reliable statistics.

METHOD OF FORECASTING GROSS NATIONAL PRODUCT

These comments on forecasting may be illustrated by taking the case of forecasting gross national product for which there are data going back well over 30 years. The economist can make a first approximation of future GNP by relating the growth of the labor force with the number of hours worked, and with the productivity of that labor force. While this method is admittedly not very refined, it has the merit of indicating without time-consuming research and calculations the probable direction GNP will take.

A second approximation of GNP in the future can be attempted by considering the movements of some of its main components such as personal consumption expenditures, gross private domestic investment, net foreign investment, and government expenditures, including purchases of goods and services (Federal, State, and local). Study of the behavior of these four components in the past will suggest certain trends for the future.

A closer look at each component will show that not all types of personal consumption expenditures, which represented 64% of GNP in 1957, move in unison. In times like the present, when the business cycle is in a downswing, purchases of consumer durable goods, like automobiles and furniture, are likely to falter. But purchases of consumer nondurables, like food and clothing, and of services, like transportation and medical care, which altogether represented 88% of total personal consumption expenditures, are not susceptible of any appreciable decline when employment falls because savings and unemployment insurance payments will be used to buy these essentials. Thus the economist is not altogether in the dark when he undertakes to make a forecast of personal consumption expenditures which are so heavily weighted by relatively stable items.

There are good reasons for believing that total federal,

state and local government expenditures, which represented 26% of GNP in 1957, will be higher in 1958 and perhaps in the near future on account of rather than in spite of the recession the country is now passing through. The government sector of the economy is one where forecasting is a matter of reviewing the federal, state and local budgets and appraising the efficacy and promptness of the so-called built-in stabilizers such as unemployment insurance and lower taxes. Moreover, the consensus is that the Congress and some state legislatures will authorize measures to stimulate expenditures by the lower income brackets of individual taxpayers by actually lowering their tax rates and by providing more employment through construction programs to build more post offices, schools, and highways. At any rate, the forecaster will have a pretty good idea of the order of magnitude of government transfer and debt payments and purchases of goods and services from published statements of budgets and special appropriations.

In the case of gross private domestic investment and net foreign investment the future is not all obscure. On the one hand, the McGraw-Hill Company has polled major manufacturers as to their future capital expenditures. While these surveys only reveal what certain companies think they will spend for expansion of plant and equipment, actual expenditures are not likely to depart materially from these figures. On the other hand, the foreign aid program which was recently introduced to Congress by the President is an excellent clue as to the size of an important part of net foreign investment.

A third approximation of future GNP can be made by fitting a line mathematically to past values of GNP and projecting it into the future. Indeed, mathematically inclined economists, the econometricians, have come up with some highly refined methods of projecting such measures as GNP. The econometricians have developed elaborate models of the economy which incorporate a large number of variable components of GNP, some of which were mentioned above. It is safe to say that these models are as good as the ingenuity and judgment of their users and are unquestionably more elegant than a series of separate forecasts pieced together. But since such projections are made on the assumption that what is true in the past will be true in the future, this method cannot be blindly accepted in the present period of technological breakthroughs in atomic energy, electronics, and missiles. Furthermore, to rely exclusively on the projection of one model of the economy built along somewhat mechanical lines may do violence to the so-called triangulation principle of using several forecasting techniques unless the variables of each technique are all included in the single model.

On balance, then, a forecast of some aggregate like GNP is composed of predictions of what each part of the private economy will do, always keeping in mind that in the last analysis it is the outcome of many individual decisions by labor, management, and consumers and what the government sector will do to correct the excesses of the private economy, either by stimulating production and consumption, as at present, or by discouraging more production and consumption than the economy can accommodate without raising prices.

The method of making a forecast will differ according to the length of time covered, the business, industry or economic measure which is to be forecast, and the geographical area which is to be included. Some of the differences are due to the availability of statistics and information. However, most of the differences between forecasts covering varying periods of time, different parts of the economy, business, and industry, and different parts of the country will be intentional and aimed at answering the particular forecasting question that has been asked.

Considering first the element of time, forecasts may logically be divided into three types: short-term, medium-term, and long-term. The short-term forecast, for purposes of discussion here, may be considered to be less than one year. In many respects it may be called a momentum type of forecast because much that may happen to business, industry, the stock market, and the national economy in the next one to twelve months has already been determined by people's decisions. A few examples of this direct cause and effect will illustrate the point:

The Board of Governors of the Federal Reserve System lowered the discount rate in March and also lowered the reserve requirements of member banks by $\frac{1}{2}\%$ in February. These two acts will tend to make credit easier and hence may be expected to stimulate production and consumption.

The relatively low level of automobile sales since the beginning of the year will probably have the effect of holding steel production to rather low levels for quite a few months to come.

The surplus stocks of petroleum products in the country will put pressure on producers and refineries to lower prices.

In spite of the validity of the above examples of predictable cause and effect, short-term forecasts are very sensitive to temporary situations. Serious labor strikes in key industries can affect the entire economy as well as the industries against which the unions are striking. The seizure of the Suez Canal by Egypt greatly increased the demand for oil and coal in the United States. Needless to say, weather conditions can greatly affect crop conditions and the demand for fuels and electricity.

Nevertheless, there is no doubt but that short-term forecasts can be valuable in controlling the size of inventories and in timing purchasing and sales in general.

The medium-term forecast may be said to run from one to four years and it may be characterized as a business cycle type because so many business cycles have been about that duration. This type of forecast is important for planning production schedules in heavy industry where new machine tools must be built a year or so ahead of actual production.

As yet there is no sure way of knowing how many more months a business cycle has to go before it reaches its peak or, as of the moment, in how many more months the current business cycle will reach the bottom of its trough and how long it will remain there before beginning its expansion phase. Such unknowns will greatly influence the timing of any general forecast of the next one to four years.

Consequently, the medium-term forecast appears to be the most difficult type to make.

The long-term forecast, using the above assumption, therefore includes forecasts of five years and over. The basis for this type is the trend of long-term growth or decline in the past which is presumed to continue and such emerging developments as are already casting their shadows into the future. If automobile production has been rising for the past 50 years, as indeed it has, it is not difficult to predict that it will continue to rise for at least another 25 years; similarly, if electric power production has increased at an average rate of 10% a year for the past 12 years, it is reasonable to predict that it will average within two or three percentage points of 10% a year for the next six years.

In many ways the long-term forecast is the least affected of the three types by temporary, erratic forces. This is because the emphasis is not so much on the precise target date, 5, 10, or 20 years from now, as on the underlying trend about which the short-term and medium-term forecasts will move up and down. Should the target date fall on a depression year or during a serious labor strike the long-term forecast could be criticized as being too high. Instead of saying that such and such will happen over a period of 12 months 10 years from now, the long-term forecast says that the average of 3 or 4 years ten years from now will be so much higher or lower than the average of the last 3 or 4 years.

Clearly the application of long-term forecasts is to major expansion and relocation programs. Whenever the question arises as to whether to construct new plant and equipment it is very important to know whether demand will be ready to absorb the additional production and allow for adequate amortization of the original investment. Moreover, pension funds, insurance companies, and institutions need to make long-term investments and they must know which industries offer the greatest promise of vigorous and steady growth.

SUBJECTS OF FORECASTS

Basically, any type of business, industrial, or economic activity and any area, be it the world, this country, a particular region of this country, or a state, city or county can be the subject of a forecast as long as statistics and information are available for a sufficient span of years, at least back to the end of the last world war. On the other hand, it would not be advisable to forecast the future of the Monthly Investment Plan of the New York Stock Exchange, production of polypropylene, population of Tibet, etc., because statistical and other information is not available over more than a few years at the most.

Nevertheless, there is a wealth of statistical data available on many conspicuous and inconspicuous activities. The economist is able to devise ways of approximating the forecast information desired. Even if there were no statistics on the consumption of tooth paste, to take a common article of consumption, it would be possible to arrive at a figure which would provide the order of magnitude by first inquiring of dentists or surveys made by them on the proportion of persons using tooth paste and then apply

that ratio to the age groups of the population which may reasonably be expected to brush their teeth regularly. In the same fashion the consumption of a new synthetic fiber can be forecast by studying the history of other synthetic textile fibers, the growth of all textile fibers, synthetic and natural, and uses of textile fibers by individuals and industry.

To make forecasts today is to realize both how much can be done with the information now available and how much better it could be done if more data were available and of a better quality. It cannot be denied that as formal forecasting comes to be a more and more recognized procedure in business, industry and investment, the present will appear as the infancy of this technique.

CONCLUSION

Considerable attention has been paid to formal forecasting, which means making forecasts for specific, pre-assigned purposes. It is unquestionably the area of activity in which professional economists are pre-eminent. Much, but certainly not all, of the uncertainty of operations, scheduling, and planning by management in business and industry can be greatly reduced by being armed with carefully reasoned forecasts. Investment, because it is in a better position to switch quickly large sums of money into and out of various situations, has an even greater need for forecasts.

No matter on what specific assignment the economist may be engaged, he is constantly interpreting and re-interpreting the shifting scene in business, the financial markets, national economic policies and politics. This is substantially the full time occupation of certain economists who prepare and write the numerous penetrating analyses that

appear in the monthly bank bulletins, government periodicals like the "Survey of Current Business," and the "Federal Reserve Bulletin," the thought-provoking articles in the magazines for businessmen and investors, the broad studies by the trade associations and businessmen's associations like the United States Chamber of Commerce, the National Industrial Conference Board, the Committee for Economic Development, the National Association of Manufacturers and others. Moreover, many economists have concentrated their attention upon highly specialized problems of the national economy, industry, and sometimes individual companies. These economists carry on research of the greatest national importance in the colleges of business administration, the universities, and private research institutes such as the National Bureau of Economic Research, the Twentieth Century Fund, the Brookings Institute, etc.

With few exceptions, however, the publications from these many sources are not specific as to what a particular company should do or what policies a particular industry should follow. Since each company and group of companies within an industry has its own individual problems that must be analyzed individually against the backdrop of national and international economic and business conditions, there is a very real need for an economist who can focus all available information and the best of all business and economic research upon the present and future operations of the particular business, company, or industry. It is, in fact, a case of dividing the labor between economists, those who concentrate more on the general problems of the times and those who concentrate more on the application of the general problems to specific situations.

As one stockholder to another...



Youngster Davy Milburn and oldster Fred Lawrence have much in common today. This is Annual Report day for these two Detroit Edison stockholders.

Davy doesn't understand *all* Fred has been saying but it makes mighty good sense. For instance, Fred's been telling him how Edison keeps on growing year after year. In fact, since 1947 plant capacity has more than doubled. So has plant value. It has now passed the billion dollar mark.

For the year 1957, power to supply Edison's 7,600-square-mile service area was up 6%. Cash dividends of nearly \$25 million were declared, representing \$2.00 per share as compared with \$1.85 per share the previous year. Detroit Edison hasn't missed a quarterly dividend for 49 years.

There's lots more Fred could say about the growth of Detroit Edison and Southeastern Michigan as well as what the company is doing to help both prosper. It's all there in the Annual Report and it makes good investment reading. Would you like a copy? Write—



The Treasurer ...

THE DETROIT EDISON CO.

Detroit 26, Michigan

*Investing in a better future
for Southeastern Michigan*

Highlights from **COMMERCIAL CREDIT'S** **46th ANNUAL REPORT**

FINANCE COMPANIES

Wholesale Financing
Instalment Financing
Commercial Financing
Equipment Financing
Fleet Lease Financing
Rediscounting
Direct Loans
Factoring

INSURANCE COMPANIES

Automobile Insurance
Credit Insurance
Health Insurance
Life Insurance

MANUFACTURING COMPANIES

Pork Products
Metal Products
Heavy Machinery and Castings
Malleable, Grey Iron and Brass Pipe Fittings
Metal Specialties
Roller and Ball Bearing Equipment
Machine Tools
Toy Specialties
Pyrotechnics
Printing Machinery
Valves

	1957	1958
GROSS INCOME	\$ 174 725 311	\$ 161 568 389
NET INCOME:		
Net income before interest and discount charges.....	\$ 98 963 983	\$ 88 670 050
Interest and discount charges.....	47 699 540	37 133 947
Net income from current operations, before taxes.....	\$ 51 264 443	\$ 51 536 103
United States and Canadian income taxes.....	24 367 474	25 057 432
Net income credited to earned surplus.....	\$ 26 896 969	\$ 26 478 671
Net income per share on common stock.....	\$5 33	\$5 26
Common shares outstanding at end of period.....	5 045 565	5 033 645

RESERVES:

Losses on receivables.....	\$ 19 170 217	\$ 19 659 794
Unearned income on instalment receivables.....	80 900 216	73 538 302
Unearned premiums—Insurance Companies.....	31 915 207	33 676 702
Available for credit to future operations.....	\$ 131 985 640	\$ 126 874 798

Operations shown separately are, briefly:

FINANCE COMPANIES:

Gross receivables acquired:		
Motor, finance leases and farm equipment retail instalment.....	\$ 821 342 285	\$ 794 433 539
Other retail instalment.....	96 828 829	120 314 599
Direct and personal loans.....	131 365 861	108 651 670
Motor, farm equipment and other wholesale notes and advances.....	1 553 479 488	1 184 503 981
Factoring, open accounts, notes, etc.....	1 227 421 903	1 179 184 205
Total receivables acquired.....	\$3 830 438 366	\$3 387 087 994
Total receivables outstanding December 31.....	\$1 447 184 063	\$1 296 831 241
Net income of Finance Companies.....	15 824 956	16 569 774

INSURANCE COMPANIES:

Written premiums, prior to reinsurance.....	\$ 34 632 251	\$ 33 106 362
Earned premiums.....	35 161 496	36 943 437
Net income (including Cavalier Life Insurance Co.).....	6 820 050	5 777 288

MANUFACTURING COMPANIES:

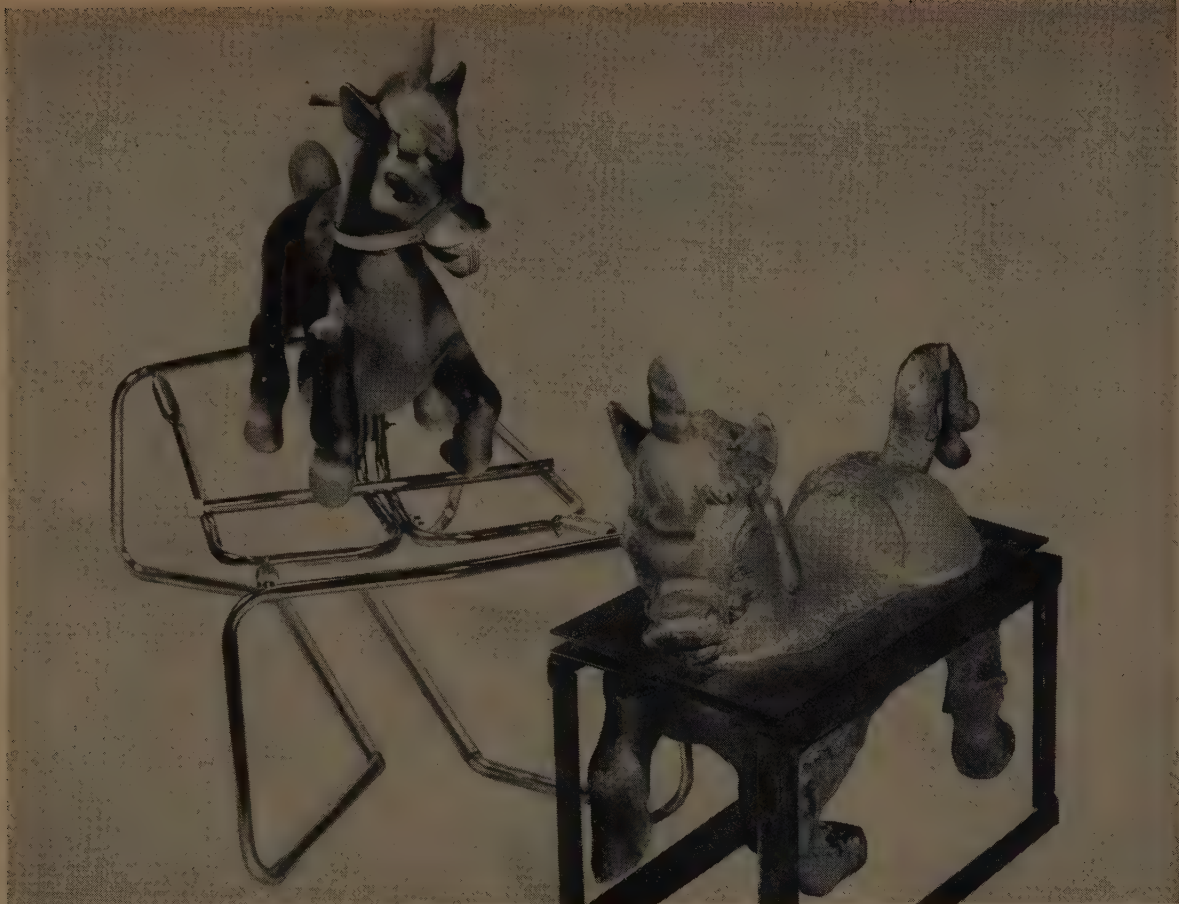
Net sales.....	\$ 136 321 975	\$ 118 976 584
Net income.....	4 251 963	4 131 609



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COMMERCIAL CREDIT COMPANY *Baltimore 2, Maryland*

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Shown at right, the 76-pound electroformed copper mold in which the beautifully detailed, 28" vinyl plastisol hobby horses are cast. Mold is made by Plated Moulds, Inc., Yonkers, N. Y.

New kind of **COPPER** influences the shape of things to come

"Plus-4"® Copper Anodes—outgrowth of a revolutionary metallurgical development by Anaconda—have opened up exciting new horizons in the mass production of intricately shaped precision parts.

In "Plus-4" Anodes, copper is alloyed with controlled percentages of phosphorus and other elements. The result is faster, more uniform acid-copper plating (and at substantial savings) than is possible with anodes of pure copper—which were long accepted as the ultimate.

Already "Plus-4" Anodes have demonstrated their advantages from the electroplating of highly complex radar and microwave components of copper to the electroforming of molds for casting velvety-smooth vinyl plastisol hobby horses by Plated Moulds, Inc.

Like many other Anaconda products, "Plus-4" Anodes were perfected while working on a tough production problem submitted by an Anaconda customer. Largely through this kind of partnership with industry, and intimate awareness of its needs, Anaconda is able to offer an exceptionally broad and versatile line of non-ferrous metals and mill products.

The
ANACONDA
Company

The American Brass Company
Anaconda Wire & Cable Company
Andes Copper Mining Company
Chile Copper Company
Greene Cananea Copper Company
Anaconda Aluminum Company
Anaconda Sales Company
International Smelting and
Refining Company

Gold—A Split Personality

ALEXANDER PINNEY

"The prices vary much on the road and the eternal confusion with the good and bad money and its different value is enough to weary a bank clerk."—*Diary of Vincent Novello, travelling from London to Vienna in 1829.*

WHEN A SECURITY ANALYST looks at gold as like as not he is either considering some aspect of inflation or is studying a company with frozen assets and non-transferable earnings in soft-money areas. Or he may be dreaming about what a free gold market in the United States would do for the gold-mining stocks. But in general monetary questions are seldom a factor in his day-to-day calculations. He knows most domestic corporations are afloat on the same sea, and that their dollar values derive from the same reference point. Where that point is in space, he is inclined, as he pursues his calling in Wall Street, to leave to Einstein. Like the navigator of a ship, he is concerned with tides only when in shoal water.

This is not to say that the average investment advisor, who may once have been an economics major, has lost interest in economic theory; nor that he does not intend to spend the next rainy week-end brushing up on Karl Marx, John Stuart Mill and Adam Smith. For one thing, he likes to keep alive his academic interests. Then, too, he may derive some vicarious pride from the fact that David Ricardo, the first to distinguish economics from political economy, was originally a security analyst who made a personal fortune by astute selection; and that John Maynard Keynes, one of the most prominent and certainly the most controversial economist of our own time, was similarly grounded. And, lastly, it is ordinary prudence to keep abreast of developments, because from time to time theories pop out of the classroom and become facts to be dealt with.

SOFT CURRENCY AND HARD CURRENCY AREAS

Today, twelve years after World War II, monetary tensions are unrelieved and the world is divided into soft currency and hard currency areas. Exchange controls are still extensively used to further "national objectives" in the cold war and even incidental to ordinary commercial rivalries between democratic allies. There are many evidences that political intervention has gone much too far in hindering the free flow of currencies. It is indicative of the unhappy state of affairs that the authoritative yearbook describing world currencies was as late as 1955 entitled "The Black Market Manual."¹ In that year the editor printed on the title page the prayer (so far unrealized):

"I devoutly hope that this edition of the black market year-book will be the last of the series; and that honest currency management, together with world peace, will create convertibility in which black markets cannot prosper."

Nevertheless pressures continue to mount, and when the

tide mounts too high, someone, like King Canute, usually gets his feet wet. Only recently France has had to de-value again. Britain, on the other hand, has announced its intention to defend the \$2.80 pound to the death and will do so until the position becomes untenable. West Germany at this same moment is valiantly engaged in holding down the mark, which like a champagne cork is about to pop and probably will. In an attempt to forestall this dire event she has announced the availability of a sort of small, economy size, gold bar to encourage hoarding by people of moderate means.

PAGES OF TESTIMONY

In the United States the subject of doing something about the dollar crops up occasionally in the news. The full-dress hearing of 1954 before the Senate Banking and Currency Committee on the subject of restoring the gold standard produced 400 pages of testimony and exhibits but came to nothing. Experts made statements all intended to be helpful. Some said gold payments should be resumed now; some said later. Some said resumption should be at one price for gold; some said at another. Some said wait and see. In the public mind the confusion was in no wise lessened by preposterous or conflicting official opinions. For example, both the Under-Secretary of the Treasury and the Chairman of the Federal Reserve Board paid lip service to the gold standard but each gentleman said not yet—one because conditions were so critical that it would be dangerous to attempt; the other because things were so good (dollar-wise) that it would be unnecessarily disturbing! These two statements were made in the same place on the same day. And the 1954 hearings were favored with gems like the following in favor of gold:

"God made gold before he made money managers and paper. As a matter of fact, God made gold before he made sex. Gold is mentioned in the 12th verse of the second chapter of Genesis. God didn't make Eve out of Adam's rib until ten verses later."

More recently the finance minister of (naturally) a gold-producing country announced that "it would be wonderful if the United States doubled the price of gold so that it could meet its international commitments."

The year 1957 has produced a study of a group of economists purporting to show that gold exercises the identical influence on commodity prices whether currencies are tied to it or not. Why bother then, one may ask, to bring it above ground at all? Let the Treasury instead buy the Homestake Mine and dedicate its proven underground reserves to secure the dollar in perpetuity.

Little wonder then, that your common man decides that the ways of monetary economists, like the ways of God, are inscrutable. And as for security analysts, only the most foolhardy venture on such hallowed ground at all. One of

1. Published by Franz Pick.

our number² a generation ago was moved to publish a fanciful magazine story on gold, perhaps to illustrate his perplexity. It ran to the effect that the leading commercial nations with gold-backed currencies decided that it was inconvenient and wasteful to ship bullion from one bank of issue to another and back again in accordance with the exigencies of trade. How much simpler to put all the world's gold (except that used by jewelers and dentists) in one central safe place and adopt a system of debits and credits to reflect the amount actually owned by this or that nation. To this end a far-away island was selected. All the gold was deposited there in a suitable impregnable container and a guard consisting of a warship of each nation circled the island on perpetual patrol. Everyone was delighted to have things settled in such a tidy fashion. The warships steamed round and round. The central banks transferred bullion back and forth by book entry. So when, unbeknownst to anyone, the island sank to the bottom of the sea under the weight of its concrete vault it really did not matter. The gold was safer than ever!

With this background it is a temptation to turn the whole subject over to Gilbert and Sullivan as a plot for one of their satirical operettas. Nevertheless, the rescue of world currencies from the purgatory where they are now wandering is a teasing problem. To its solution a security analyst might make some slight contribution from his market experience. Accustomed as he is to variable prices, he is struck even in a cursory reading of the literature of monetary gold with the fixation that prevails in favor of a price of gold fixed for all time. True Professor Irving Fisher came up many years ago with a commodity dollar scheme tying the price of gold in with the average of commodity prices. This Benjamin Anderson demolished to his own satisfaction in a carefully prepared pamphlet proving it a practicable impossibility, and left the reader with the impression that the fixed-price gold standard was practicable, although events have many times proved otherwise. Other voices have been raised from time to time favoring in a limited way a variable gold price to be determined by supply and demand. Dr. J. E. Holloway³ has pointed out that "if gold is not correctly priced it will, in time, work havoc with any money mechanism." Henry Hazlitt at the 1954 Senate hearing on gold resumption urged a trial period to enable a free gold market to determine the "right" price for convertibility, but contemplated in a few months arriving at a fixed price that would stand for all time. This was an echo of David Ricardo's suggestion during the great bullion controversy in England a century and a half earlier.

THE PRICE OF GOLD

But the vast majority of commentators today talk of the price of gold in its monetary aspect as rigidly fixed as the length of a yard or the volume of a bushel. The public gets the impression that this must be so, perhaps due to some immutable law which is as far beyond the question

as the laws of gravity or of supply and demand. Obsessed with this preconception, virtually all the witnesses who contributed 400 pages of testimony and exhibits to the Senate hearings in March 1954—professors, economists, financiers, government officials and foreign experts imported for the occasion—testified in a repeating pattern about two different things without clearly defining each. Instead they argued passionately from one premise or from the other, unaware of the presence of another premise in the room.

What are these two different things? What is the split personality of gold? Ordinarily textbooks on finance start the chapter on money by explaining how wampum was an improvement on barter among primitive tribes. Then the student is led swiftly through the history of mankind's experiments with various types of coinage down to gold. Gold, he is told, is the ideal medium of exchange because of its durability, acceptability, portability, etc. There are spelled out the evils of fiat money, whether of paper or base metal, and the importance of gold backing as a protection against improvident or predatory monarchs and politicians. He is also told that gold is a commodity, the supply of which varies considerably based on new discoveries, and that in its commercial use the demand is subject to change from time to time.

THE DUALITY OF GOLD

These two uses, the commercial and the monetary, are what are frequently thought of as comprising the duality of gold. There seems to be less understanding of the fact that in its monetary application it also has two uses and these have proved to be mutually exclusive. The reference is to gold as currency versus gold as control over the paper-money and token-money issuing authority. As currency it was hardly more than a stepping-stone in the middle of a narrow stream that facilitated passage dry-shod from one shore to the other. Only much later when money in the form of bank-notes became an important banking function did gold begin to acquire its other monetary aspect. The sovereign power, it was found, could (by legal processes) cheat the citizenry. As a result the concept of a minimum legal gold reserve for the bank-notes in circulation came into being. This was expressed in percentage, but in addition each bank note was envisaged as a receipt for a specific weight of gold, i.e., a fixed price per ounce. Otherwise, it was believed, the intended restraint was meaningless.

Under these circumstances not only a specific currency but the whole economy of a nation was irrevocably subject to the vagaries of the gold supply and the gold demand. The dog wagged by his tail could be no more uncomfortable. For, as Ricardo has pointed out, gold not only is the measure of value but also the thing valued. As a result of variations in the real value of gold all long- and short-term contracts must follow but in a wider and more painful arc. Traditional monetary doctrine required that this be so, which led to a number of unattractive by-products. The principal of these was competitive hoarding. If the currency was over-valued, i.e., the value of gold was intrinsically above the mint price, the public tended to hoard, forcing the threatened Treasury in turn to hoard its insufficient

2. Rene Leon.

3. Ambassador to the United States from the Union of South Africa (1955).

and dwindling gold reserve. Eventually this led to the inevitable end result—devaluation, and the selection of another “wrong” fixed price.

Considering the number of times this chain of events has led to fiscal crisis since mandatory gold reserves at fixed prices has become an important part of monetary policy, it is a matter of some wonder that practically all talk of resuming the gold standard assumes that it will have to be done at a fixed “legal” price. One would think that the man-made “control” concept of gold having been proved unenforceable it would be abandoned. A broken law is worse than no law at all. And abandonment, or modification in this case, has such an attractive alternative—the return of monetary gold to its role of only a century or two ago as a medium of exchange with world-wide acceptability. It is true that any freeing of gold is likely to be followed in the first instance by some private hoarding, but the private hoarder is seriously handicapped as compared with governments because gold is sterile. Producing nothing, it is a good measure of value but a poor investment. The private citizen can acquire it only by giving something of value, and in a free gold market rising prices (measured in useful goods and services) would make extensive hoarding self-defeating.

The reader may ask why, if the international gold standard is so basically unsound, did it gain so many adherents and why did it last as long as it did? Regardless of how it may be circumvented within national boundaries, is it not an admirable way of settling up between countries? And as a practical matter did it not operate smoothly from the Peace of Vienna to the outbreak of World War I? It is this apparent workability of the fixed gold standard during the heyday of the British Empire that may explain why belief in its efficacy dies hard. Could it be, however, that when the mechanism of Central Banks shipping bullion back and forth between the “gold points” was handling the small adjustments so smoothly that the big adjustments were being accomplished by other means? Did the “Latin Union” by itself really keep five diverse continental currencies within a narrow tolerance from 1873 to 1914 by an international agreement unenforceable on the citizens of another country? Could such a scheme have been carried over into a world currency pursuant to the ambitious plan of the old League of Nations to sponsor an international money—a sort of financial Esperanto?

CONFIDENCE IN THE BANK OF ENGLAND

Looking back, it is easy to see that there was something else which was doing the work for which the gold standard was taking the credit. Certainly confidence in the Bank of England plus the ubiquity of British traders, shippers, insurers, bankers and long- and short-term investors made a tremendous contribution to financial stability for a hundred years. And since their system was undermined by the losses of the 1914-18 war, things have never been the same money-wise. There is a suspicion that even in its palmyest days the gold standard may have gotten considerable credit that should have gone to the “sterling standard.” Those who wish, nostalgically, to restore the fixed gold standard may be mistaken in their premises as to its past effectiveness.

As William Graham Sumner has said, more human errors are committed by reasoning from false premises than result from false reasoning.

If then the fixed gold standard is unlikely to be by itself effective in international settlements just as it has failed in its function of control over profligate treasuries, why should we try so persistently to put Humpty-Dumpty together again? Why not reincarnate him solely in the role of international money, leaving to other means the policing of paper currencies? If so, released gold might function better than the pound sterling or the mythical League of Nations currency.

In the international area one nation's currency would be priced in terms of another at its commercial value. But is this bad? Here again your security analyst would surely vote for flexible prices as the best means of adjusting the inevitable changes in the relationship of one country's economy to all others. As it happens, we have convincing proof of just this in the freely fluctuating prices of the United States and Canadian dollars. This has endured now for seven years and each nation continues to be the best customer of the other. There is no indication that a variable rate of exchange has deterred long-term investing either way. Business men, being used to variables, realize that if allowed free play economic forces tend to correct by minor swings what could become major distortions if confined in the fixed price strait-jacket.

Having found that God not only made gold before sex, but that gold as money came before gold as control over the money issuing authority, can the clock now be turned back? Would there be a run on Fort Knox if citizens could present paper dollars in payment for gold? Obviously were gold offered at a fixed price that proved to be below the free market, withdrawals would continue until the gold market was depressed to the level where it would be unprofitable to speculators. Hoarders, when the novelty of gold possession wore off, would be discouraged, because the metal, as stated above, produces no income. In this connection it is interesting to note that “liabilities to foreign official institutions” as classified by the Federal Reserve System totalled nearly \$8 billion at the end of September 1957. These are a direct claim of that amount on the Fort Knox gold at \$35 an ounce; yet have not been so exercised, the foreign central banks concerned preferring to keep their dollar reserves in earning assets. On the same date the foreign investment in United States Treasury bills and certificates exceeded \$4 billion.

Any plan to permit acquisition of gold by American citizens would necessarily have to be “ex” the \$8 billion owed to foreign official institutions, both for practical considerations and as a matter of national honor. As to the balance, amounting to the order of \$14 billion, presumably the first step would be the initiation of a free bullion market, to be followed by the release of Treasury gold (at a price) through the banking system. Excessive hoarding would encounter a sharply rising price for the metal. On the other hand, if all the prevailing restraints on excessive issuance of bank notes remained in force, confidence in the currency would not be undermined even if the present legal requirement of a 25% gold reserve were superseded by a reserve

measured in ounces. In this connection there are those who argue that a return to the gold standard is out of the question because there is now not enough gold to go around. Yet today the world supply of monetary gold in ounces is twice as great per capita as in 1914. The gold would be there and could not be diminished in quantity except in exchange for value as determined by a free market. Actually the principal restraint on reckless fiscal policy is public opinion reacting on the common sense and civic responsibility of public officials. Allan Sproul has said:

"The integrity of our money does not depend on gold convertibility. It depends on the great production powers of the American economy and the competence with which we manage our fiscal and monetary affairs."

Requiring any officials to maintain a fixed rate of exchange that is clearly uneconomic makes prudent money management all the harder if not impossible.

PROBLEMS OF THE RETURN TO GOLD

There is no doubt that the return to the use of gold as a medium of circulation involves great practical and psychological problems.

The fact that the dollar is a strong currency does not seem to be a valid argument for letting things drift. President Eisenhower does not think so. In January 1957 he

called for the formation of a national monetary commission to make a comprehensive inquiry now, and there is hope that this time something other than talk will be accomplished. The situation is certainly not improving and a breakdown of economic relationships among the western democracies is something the free world can ill afford. A collapse in 1931, springing from many of the same strains that exist today, brought in its wake political repercussions and led directly to World War II.

One last question: a free bullion market enables the wealthy to hoard if they choose but how about the little man? Hazlitt has pointed out that "a full gold standard is desirable because a gold bullion standard is merely a rich man's standard. A relatively poor man should be just as able to protect himself — as a rich man." Perhaps Donald McLaughlin⁴ has the answer, the coinage by the United States Mint of one-ounce gold pieces certified as to weight and fineness, and available to the average citizen at the market. This coin would be labelled "One Redeemer!"

John Stuart Mill wrote of gold as money in these words: "No other substances unite the necessary in so great a degree, with so many subordinate advantages." But even this admirable Crichton seems to have had a fall between its two incompatible monetary functions.

4. President of Homestake Mining.

Record 180,721,000 pounds of aluminum foil rolled in 1957 — most of it on Blaw-Knox Mills



WRAP IT IN MIRRORS. Miles of aluminum foil for everything from heat-n-eat meals to insulation and car radiators roll from Kaiser's new integrated aluminum plant at Ravenswood, West Virginia. It is one of over 115 aluminum foil mills built by Blaw-Knox.

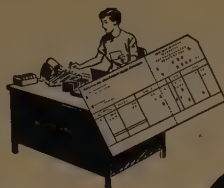
As fast as versatile aluminum foil can be produced, it is gobbled up by supermarkets, food processors, home-builders, defense departments — and a long list of industrial users. The future looks great for foil — and for Blaw-Knox, the world's leading builder of foil mills.

Throughout industry, Blaw-Knox equipment, engineering and research are helping American enterprise build futures. If your company is concerned with rolling or fabricating metals, with road building, chemicals, processing or communications — Blaw-Knox is the forward-looking company you want working with you. Our brochure, "This Is Blaw-Knox," describes our products and services for industry. Write for your copy today.

BLAW-KNOX COMPANY

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SOUTHERN CALIFORNIA EDISON COMPANY



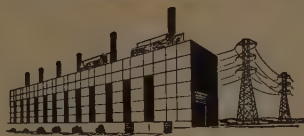
REVENUE AND SALES

Gross Revenue rose to \$218,818,527 or 11.4% over 1956. Net income declined 5.2% to \$31,567,303, due to inflated operating costs, below average water conditions and the high cost of new capital.



CUSTOMERS

Total meters on the Company's system passed the 1.5 million mark. The 66,557 additional meters connected in 1957 was equivalent to the requirements of a community of nearly 200,000 people.



GENERATION

Electric energy transmitted of 15 billion kwh was more than twice the amount transmitted ten years earlier. The annual system load factor was 65.2% compared with 63.1% in 1956.



PLANT EXPANSION

Electric plant investment increased \$119,847,480 during 1957 to \$1,134,163,132. Two steam units were completed, each with 175,000 kw capacity. Five new generating units are under construction.



FINANCING

Through the sale of three issues of First and Refunding Mortgage Bonds, \$117,326,875 of new money was obtained during 1957 at the highest bond money cost prevailing in 25 years.

Southern California Edison Company continued its dynamic program of expansion in 1957 by investing more millions than ever before in new electric plant and equipment.

Although 1957 was a year in which many new records were established, earnings per common share declined from \$3.39 in 1956 to \$3.03, emphasizing the need for a rate increase. New rate levels authorized by the California Public Utilities Commission October 15, 1957 became effective November 9, 1957. The new rates were designed to produce a rate of return of 6.25% on a depreciated book-cost rate base and to provide additional revenue of \$25,000,000 annually at the 1957 estimated sales level.

A license was issued by the Federal Power Commission on December 30, 1957, and authorization

of the California Public Utilities Commission was received on January 21, 1958 for the construction of the Mammoth Pool Hydroelectric Project. Additional generation at Mammoth, plus re-use of the water downstream, will provide an average annual increase of 636 million kilowatt-hours at the Company's Big Creek-San Joaquin River Hydroelectric Development.

Under a contract with Atomics International, a division of North American Aviation, Inc., the Company has installed generating equipment adjacent to an experimental sodium-graphite nuclear reactor near Santa Susana. Electric power was produced from this source and distributed to Edison customers on July 12, 1957. This was the first time that a privately-owned electric utility generated and distributed electric energy on a commercial basis from a non-military reactor.

CONDENSED CONSOLIDATED BALANCE SHEET

December 31, 1957

ASSETS

Electric Plant	\$1,134,163,132
Investments & Other Assets	9,674,433
Current Assets	96,156,986
Deferred Charges	4,519,674
Capital Stock Expense	3,208,150
TOTAL ASSETS	<u>\$1,247,722,375</u>

LIABILITIES

Stated Capital and Surplus	\$ 456,374,643
Long Term Debt	510,213,000
Current Liabilities	69,351,687
Depreciation Reserve	183,746,125
Other Reserves & Liabilities	28,036,920
TOTAL LIABILITIES	<u>\$1,247,722,375</u>

SOUTHERN CALIFORNIA

EDISON BUILDING • 601 WEST FIFTH STREET



COMPANY

LOS ANGELES 53, CALIF.

REPORT ON 1957 BY AMERICAN VISCOSE CORPORATION

Net earnings of American Viscose Corporation and its equity in those of 50 per cent owned companies were \$18,989,000 in 1957, equal to \$3.73 per share of capital stock outstanding. This compares with \$21,549,000 in 1956, or \$4.22 per share.

American Viscose shipments of cellophane were at near-record levels in 1957. Shipments of rayon textile yarn were substantially lower than in 1956. Sales of rayon tire yarn, rayon staple and acetate yarn were somewhat larger but were insufficient to maintain satisfactory rates of plant operation.

As a result, sales were \$227.6 million in 1957, compared with \$239.4 million in 1956.

1957: a year of planning for future progress through—

• Development and introduction of new and improved products

Major new products introduced to the market by American Viscose Corporation during 1957 are expected to be beneficial to the Corporation in the years ahead. Accomplishing a major advance in carefully planned product diversification, these new products of particular promise include:

Avisco® XL, heralded as the greatest advance yet made in rayon; a staple so much improved in strength that it is virtually a new product.

Avicron®, a new rayon yarn for home furnishings and apparel. Initial response from carpet and bed-spread industries has been extremely encouraging.

A new Rayflex® yarn, forty per cent stronger than regular yarns, which should increase the use of rayon in industrial applications.

Super L®, a new carpet fiber with superior wear and soil resisting qualities.

Improved new cellophane coatings, some now in limited production.

• Planning for new cellophane markets, while keeping shipments at near-record level

Cellophane is making an important contribution to American Viscose earnings, and there are large potential markets for this excellent packaging material. Shipments of cellophane in 1957 were at a near-record level; and American Viscose has plans for even greater participation in the \$15-billion-a-year packaging industry.

• Expansion of the operation of associated companies

Associated companies made very good progress during the past year.

Equity of American Viscose in earnings of its 50 per cent owned companies—The Chemstrand

Corporation and the Ketchikan Pulp Company—increased substantially to \$2.08 for each share of American Viscose in 1957, from \$1.29 in 1956. This increase in earnings is attributable to the expanding operations of these companies, and their higher sales—\$168.7 million in 1957 contrasted with \$128.6 million in 1956.

In 1957 Chemstrand expended \$44 million for new facilities and improvements. Chemstrand entered into a \$25 million credit agreement to finance a part of its plant expenditures. Of this amount \$20 million was borrowed in 1957. This agreement restricts the payment of cash dividends by Chemstrand until the loans are paid. However, if during the year 1958 conditions appear to warrant it, consideration will be given by Chemstrand to negotiations for the alteration of this restriction and the payment of a dividend late in the year.

• Bringing important modernization programs near completion

Expansion of American Viscose facilities in 1957 required expenditures of \$39 million for plant additions, replacement and modernization. This was the largest sum ever spent by the corporation in any one year.

The major expenditures were for the new cellophane plant, which will have an annual capacity of 50 million pounds, and increase total corporation capacity to 150 million pounds; for improved and enlarged research facilities; additional rayon staple facilities; and for the conversion of equipment to produce new and improved products.

Modernization of research and development headquarters assures continuing leadership in product development and diversification.

The Corporation's earnings and its equity in the earnings of associated companies were as follows:

American Viscose Corporation:	1957	1956
Sales and other income	\$229,139,000	\$242,975,000
Costs and expenses	\$211,881,000	\$210,697,000
Income before taxes	\$ 17,258,000	\$ 32,278,000
Estimated income taxes	\$ 8,850,000	\$ 17,369,000
Net income for the year	\$ 8,408,000	\$ 14,909,000
Earnings per share	\$1.65	\$2.93
50% equity in the net earnings of The Chemstrand Corporation and Ketchikan Pulp Company	\$ 10,581,000	\$ 6,640,000
Per share of American Viscose	\$2.08	\$1.29
	\$ 18,989,000	\$ 21,549,000
Per share	\$3.73	\$4.22

American Viscose paid dividends of \$10.2 millions to shareholders in 1957 at \$2.00 per share as in the previous year. At December 31, 1957, there were 5,096,135 capital shares outstanding, owned by 23,564 shareholders.

AMERICAN VISCOSE CORPORATION
1617 PENNSYLVANIA BLVD., PHILADELPHIA, PA.



Review and Outlook for the Airlines

JOHN H. LEWIS

THE SUBJECT OF THIS STUDY is the outlook for the 12 domestic trunklines in 1958 and beyond. It is viewed against a backdrop of the January interim 4% increase in passenger fares and \$1.00 on one-way tickets as well as the broader context of the CAB Regulatory Policies revolving around a concept of a fair return on the capital investment, or so-called investment rate base of the various scheduled companies in this field.

FAIR RETURN

For many years now the CAB has been following the policy of granting the airlines an 8% return (including capital gains) on their investment rate base (excluding deposits to aircraft makers and other disallowances) over a period of time. This has been considered enough to make the airlines self-sufficient and, in consequence, independent of Government support in the form of subsidies. Except for some mail payments on international routes, all the 12 domestic trunklines currently operate without subsidy. Two important developments, both of recent origin, raise serious doubt about the continued ability of the airline industry to operate on a self-sustaining basis.

EQUIPMENT PROGRAM AND FINANCING

One is the recognized public need for up-to-date transportation in step with the rapid advances in technology. The industry, which has a net worth currently of some \$650 millions, is committed to an equipment purchase program over the next five years in the order of some \$2.5 billions. Despite the phenomenal growth of traffic in the post-war period, the level of past earnings has not enabled the airline industry to achieve the degree of financial maturity which permits the payment of adequate dividends to its stockholders. As a result, the prices of airline stocks until recently have been in a declining trend since mid-1955. The ratings of the common stock of airlines as given in the Fitch Stock Record indicate that since 1938 all but one of the major airline stocks have been classified as "CCC" or lower, meaning in essence that they are lesser grade stocks. United Air Lines alone was rated as having investment merit. This, of course, makes it difficult for all the airlines to raise all the money that is required for their equipment programs. Specifically, the prevailing ratio of debt to equity capital and the relationship between the current book value and stock prices make it difficult to see how some carriers can afford to purchase all the jet aircraft they need in order to compete successfully in the future, unless earnings can be substantially improved by rate increases and there is a change by the CAB in a policy which creates excessive competition as a result of awarding too many new routes.

Even the big airlines find that they should obtain more equity capital to finance jet planes, yet with the cost penalty

attached to equity financing, this is not an easy goal to achieve. This point was made amply clear by William A. Patterson, president of United Air Lines, in testimony before the Committee on Interstate and Foreign Commerce, 83rd Congress, Second Session, June 15, 1954. Mr. Patterson's argument was as follows: Airline management has an obligation to obtain capital at the lowest cost consistent with the maintenance of a sound financial structure. An important factor favoring use of debt financing is the high cost of airline equity capital as compared with the lower cost of debt capital. The cost of new equity capital is measured in terms of what it must earn to prevent dilution of equity capital already invested in the business. This information is given by the earnings-price ratios (earnings divided by price).

Using per share earnings for the year 1953 and taking the price of the common stock of United, American, Eastern and Trans World Airlines (all listed on the New York Stock Exchange) as of December 31, 1953, the average earnings-price ratio for these four major carriers, according to Mr. Patterson, indicates an earnings need of 14.4% after taxes if the earnings rate of present stockholders is not to be diluted. This is equivalent to a return of 31.1% before taxes.

Based on 1956 earnings (including capital gains) and mean price (average of yearly high and low) the earnings-price ratio for American Airlines was 9.95, Eastern 10.31 and United 8.85. TWA was omitted because of a net operating loss in 1956. The average earnings yield (or earnings-price ratio) for the group of three airlines works out as 9.7%. This means that based on 1956 earnings and prices the group would have to earn more than 9.7% after taxes on any enlarged equity base (old and new stock) so as to prevent the holdings of present stockowners from being diluted. This is equivalent to 20.2% before taxes. The latter figure is probably close to 4-5 times the cost of debt capital under current conditions of generally declining interest rates. Observe that interest cost before and after taxes is the same, for interest is a tax deductible item. With this wide differential in cost, it is difficult to see how the airlines can raise equity capital while maintaining the customary 50-60 equity and 50-40 debt structure, unless the airline stocks go well above their book values.

TRAFFIC AND EARNINGS, 1957

A second development which raises doubt about the ability of the airline industry to continue on a self-sustaining basis without additional fare increases is the current business decline. Airline traffic started down in mid-September 1957. As a result, several airlines have already lowered their traffic projections for 1958. Thus, United Air Lines figures that industry traffic in the current year will top the preceding year by only 6%-7%. Even prior to the recent

slump in traffic, the airlines found it increasingly difficult to absorb the rising cost of fuel, labor and materials. In the last 7 years profits per revenue ton mile dropped about two-thirds, from 9 cents in 1950 to 3 cents in 1957. With overhead the same, regardless of the load factor, it is not difficult to see why the recent decline in traffic has cut so deeply into profits. This is pointed up in the table below, which shows the earnings per share of common for each of the 12 domestic trunklines in 1957 together with the figures indicating what they could have earned based on an 8% return on their investment rate base for 1957 in our own computations. Basically, our method has been to take total assets (less depreciation), including deposits to aircraft makers, less current liabilities. In figuring the earnings based on the investment rate base, adjustments have been made for interest expense and preferred dividends.

EARNINGS PER SHARE OF COMMON*		
1957		
	8% RETURN ON INVESTMENT RATE BASE	EARNINGS
American	\$1.66	\$1.08
Braniff	1.18	0.59
Capital	5.62	d 3.70E
Continental	2.19	d 0.51
Delta	3.66	1.84
Eastern	3.59	2.34
National	2.31	1.06
Northeast	0.77	d 2.40
Northwest	2.35	1.19
Trans World	1.98	d 0.24
United	3.80	1.41
Western	2.14	0.92

*-From operations only.

E-Estimate

d-deficit.

HISTORICAL EARNINGS RECORD

The table below shows the rate of return, after elimination of capital gains, for the 12 scheduled domestic trunklines using an annual investment rate base for the 10 years 1946-1955.

DOMESTIC TRUNKLINE RATE OF RETURN AFTER ELIMINATION OF CAPITAL GAINS					
(000)					
YEAR	AVERAGE INVESTMENT	NET INCOME AFTER TAXES	NET CAPITAL GAIN (OR LOSS)	ADJUSTED NET INCOME	PERCENT RETURN
1946...	\$ 208,861	\$ - 3,086	\$ 653	\$ - 3,739	- 1.79
1947...	272,398	- 7,818	376	- 8,194	- 3.01
1948...	309,568	- 5,230	431	- 5,661	- 1.83
1949...	323,839	19,884	89	19,795	6.11
1950...	330,673	36,969	1,335	35,634	10.78
1951...	350,111	51,205	- 140	51,345	14.67
1952...	419,613	59,793	8,304	51,489	12.27
1953...	484,425	54,907	8,990	45,917	9.48
1954...	530,290	55,154	5,939	49,215	9.28
1955...	603,566	71,306	9,923	61,383	10.17
	\$3,833,233	\$ 333,084	\$ 35,900	\$ 297,184	7.75

Note: Based on Civil Aeronautics Board data.

The table indicates an average rate of return over this period of 7.7%, or below the 8% return which the CAB has recognized as a fair and equitable return. The discrepancy is largely the result of past CAB policy of including capital gains in earnings. The airline industry argues that this is an unsound practice. Actually, capital gains are not income or profit but a partial return or recovery of capital. Hence their inclusion in earnings for rate-making purposes is not justified. Moreover, capital gains normally show wide fluctuations, which, if included in earnings for rate-making purposes, introduce a random element in the fare structure. Finally, prior to the introduction of the turbo-prop, used planes generally sold at prices well above their original cost, thereby making an important contribution to company earnings. Currently, the airlines are finding it increasingly difficult to dispose of their older planes. By the time that full jets reach the operational stage, some of the older planes may command prices not far above scrap value. If the CAB insists on continued inclusion of capital gains in earnings, this should have an important leverage effect on passenger fares. To the extent that capital gains become a smaller share of total earnings, even a constant level of operational earnings results in successively lower rates of return on the investment rate base. Under this view, further fare increases will become inevitable, unless earnings from operations should increase to the point of balancing the decline in capital gains, which is not likely to happen without higher fares or a change in CAB's policy of granting routes too liberally.

EFFECT OF FARE INCREASE ON EARNINGS

Recently the CAB gave the airlines a straight increase in passenger fares of 4% plus \$1.00 per one-way ticket. This two-way boost favors the short haul over the long haul carrier. Based on CAB computations, the average weighted increase in passenger revenues for the 12 domestic trunklines will be 6.6%. Our own computations, based on somewhat different assumptions, indicate an arithmetic average of 7.4% and a weighted average of 7%.

DOMESTIC TRUNK OPERATIONS

BIG FOUR	INCREASE IN PASSENGER REVENUE PER REVENUE PASSENGER MILE					INDICATED 1957 TRAFFIC (REVENUE (PASSENGER MILES)* VI	1958 ANNUAL GAIN IN PASSENGER REVENUE (\$ MILLIONS)** PER SHARE*** VII	
	PASSENGER REVENUE PER REVENUE PASSENGER MILE I	FROM 4% FARE INCREASE II	FROM \$1.00 INCREASE IN ONE-WAY TICKET III	TOTAL (COLS. 2+3) IV	PERCENTAGE (COL. 4 : 1) V			
American	5.38¢	0.215¢	0.147¢	0.362¢	6.7%	5,143	\$18.6	\$1.12
Eastern	5.35	0.214	0.172	0.386	7.2%	4,835	18.7	3.08
United	4.92	0.197	0.123	0.320	6.5	3,662	11.7	0.84
Continental	5.24	0.210	0.133	0.343	6.5	4,853	16.6	2.37
Northwest	5.79	0.232	0.231	0.463	8.0	956	4.4	0.72
Southwest	5.94	0.238	0.262	0.500	8.4	1,500	7.5	3.95
Alaska	6.21	0.248	0.234	0.482	7.8	363	1.7	1.15
Alaska	5.50	0.220	0.199	0.419	7.6	1,405	5.9	2.53
Alaska	5.27	0.211	0.149	0.360	6.8	953	3.4	1.56
Alaska	6.57	0.263	0.366	0.629	9.6	245	1.5	0.40
Alaska	5.20	0.208	0.143	0.351	6.8	1,205	4.2	1.50
Alaska	5.78	0.231	0.197	0.428	7.4	703	3.0	1.70
						TOTAL...	97.2 +	

* In Millions ** Before Taxes *** Net After Taxes + Compares with preliminary CAB estimate of \$98.3 millions and trunkline estimate of \$95.5 millions.

Column I—Indicates the passenger revenue per revenue passenger mile, separately for each of the domestic trunklines. These are the figures for the 12 months through June 30, 1957 (latest released by the CAB). Observe that the figures only apply to domestic operations.

Column II—Shows the effect on passenger revenue per revenue passenger mile from the 4% increase in passenger rates.

Column III—Shows the increase in passenger revenue per revenue passenger mile from the \$1.00 increase per one-way ticket. These figures are obtained by dividing the average length of passenger haul into \$1.00. The average length of passenger haul figures are derived from the monthly CAB counts of revenue passengers (only originating, not lay-over passengers) and revenue passenger miles for the first eight months of 1957.

Column IV—The sum of Column II and Column III. This gives the total increase in passenger revenue per revenue passenger mile from the 4% increase in fares and the \$1.00 increase in the price of the one-way ticket.

Column V—Expresses the total gain in Column IV as a percentage of the passenger revenue per revenue passenger mile (prior to the CAB fare increase) in Column I. The result is the over-all percentage gain in passenger revenue per revenue passenger mile resulting from the recent increase in passenger fares for each of the 12 domestic trunklines.

Column VI—Gives indicated traffic for 1957.

Column VII—Shows the gain in revenue before taxes based on our traffic figures in Column VI and the percentage gain in passenger revenue per revenue passenger mile as the result of the recent fare increase in Column V.

Column VIII—Shows the indicated increase in per share earnings for 1958 as a result of the fare increased based on our 1957 traffic figures.

In evaluating the data in our table, allowance has to be made for the fact that all the airlines do not receive 100

cents from the \$1.00 fare increase. For one, travelers on a first-class return ticket are allowed a 5% discount. In consequence, for every round-trip ticket issued, the originating carrier receives only \$1.90 (not \$2.00). Next, only the originating carrier collects the \$1.00, but must prorate the \$1.00 with the other carriers participating in the joint fare. Since any airline has at least a moderate load of passengers it shares with other airlines, not a single airline will retain the full amount of the \$1.00 it collects from all its originating passengers. American Airlines, for example, estimate that they will retain only about \$0.70 from the \$1.00 fare increase. We figure that United and TWA will also retain only about \$0.70 from the \$1.00 fare increase.

A priori, there is no fixed rule whereby one could determine the allocation of the \$1.00 fare increase among participating carriers. The percentage that an individual airline keeps of the \$1.00 fare increase obviously depends on fixed and variable (seasonal) as well as random factors. For this reason we have intentionally and completely overlooked the proration factor in our computation. Doing otherwise would have imported a substantial element of arbitrariness in the final figures. Actually, there is more to proration than may catch the eye at first glance. Thus, proration is a two-way, not a one-way, street. Any airline shares with other carriers not only in the \$1.00 fare increase it collects from its own originating passengers, but likewise in the \$1.00 fare increases the other carriers collect from their originating passengers. Depending on size and network and other factors, a specific airline—in the final analysis—as the result of prorating both ways may collect more or less than the \$1.00 fare increase on its own originating passengers.

One will also observe that our estimates of the additional gross revenue from the fare increase must not necessarily agree with the corresponding company estimates. But the point is worth stressing that such discrepancies may not

stem merely from the fact that the company estimates may allow for proration while ours do not. The differential could be due to a different base for the 6% fare increase. All our results are based on the passenger revenue per revenue passenger miles for the 12 months through June, 1957. These are the latest figures available from the CAB. Instead of using the 12 months through June, 1957, a company may use the calendar year 1957, or the projected 1958. Thus United Air Lines estimates that the interim fare increase will mean about a 6% revenue increase for them, or about \$14 millions annually. This compares with our estimate of \$16.6 millions. The principal factor in this differential is the base of the 6% fare increase, namely, passenger revenue per revenue passenger miles. Based on CAB figures for the 12 months through June, 1957, underlying our computation, United earned 5.24 cents per revenue passenger mile. This compares with 4.80 cents implicit in United's computation.

Most of the airline stocks are attractive at present levels, for long-term holding, largely because their investment rate bases will increase quite sharply in the next few years and there is now no reason to believe that the CAB will not allow them to earn at least 8% on their rate bases. The airlines are in such a strong competitive position that fare increases should not have too adverse effects on their revenues because of a decrease in demand for their services. The traffic growth, as represented by revenue passenger miles, is still strongly operative. So over a period it ought not to be impossible for the airlines to earn 8% on their rate bases from increased fares and gains in traffic. But if that is not enough, then help from Federal subsidies must be extended. In any event, assuming that an 8% return on the investment rate base will be attained on the average over a period of years, then share earnings for the individual companies will increase providing equity financing can be achieved without too much dilution.

CONSOLIDATED NATURAL GAS COMPANY

30 Rockefeller Plaza
New York 20, N. Y.

DIVIDEND No. 41

THE BOARD OF DIRECTORS has this day declared a regular quarterly dividend of Fifty Cents (50¢) per share on the capital stock of the Company, payable May 15, 1958 to stockholders of record at the close of business April 15, 1958.

R. E. PALMER, Secretary
March 19, 1958

BOSTON EDISON COMPANY

Preferred Dividend

A quarterly dividend of \$1.06 per share has been declared, payable on the first day of May 1958 to holders of record at the close of business on April 10, 1958 of the Company's Cumulative Preferred Stock, 4.25% Series.

Common Dividend No. 276

A quarterly dividend of 70 cents per share on the Common Stock of the Company has been declared, payable on the first day of May 1958 to stockholders of record at the close of business on April 10, 1958.

Checks will be mailed from Old Colony Trust Company, Boston.

ALBERT C. McMENIMEN
Treasurer

Boston, March 18, 1958

The Baltimore and Ohio Railroad Company

131st Annual Report—Year 1957

Income:	Year 1957	Comparison With 1956
		(+) Increase (-) Decrease
From transportation of freight, passengers, mail, express, etc.	\$461,303,581	—\$4,181,115
From other sources — interest, dividends, rents, etc.	6,812,121	— 934,219
Total Income	\$468,115,702	—\$5,115,334
Expenditures:		
Payrolls, supplies, services, taxes	\$402,289,143	—\$4,429,817
Interest, rents and miscellaneous	41,695,523	+ 5,221,708
Total Expenditures	\$443,984,666	+\$ 791,891
Net Income:		
For improvements, sinking funds and other purposes	\$ 24,131,036	—\$5,907,225

In 1957 the Preferred Stock dividend of \$4 per share and a Common Stock dividend of \$2 per share were paid in equal quarterly installments. An extra dividend of 50 cents per share on the Common Stock for 1957 was paid December 30. Dividends of \$4 per share on the Preferred Stock and \$1 per share on the Common Stock, payable in equal quarterly installments on March 20, June 20, September 19 and December 19, 1958, were also declared.

The Company's long-term debt was reduced by a net amount of \$14,706,043. The facilities of the Company were maintained in condition to render adequate, safe and efficient service. The property was improved to the extent of funds available.

A copy of the Annual Report may be obtained by writing to the Secretary, The Baltimore and Ohio Railroad Company, Baltimore 1, Md.

H. D. Simpson, President

Beneficial Reports for 1957



- more money loaned to families than ever before
- total assets exceed \$500,000,000
- annual earnings at new high

The year 1957 was a good year for Beneficial with net Instalment Notes Receivable up \$50 million to a new high total of \$492 million at the year-end. Earnings exceeded \$20 million and assets passed the half-billion-dollar mark.

The Beneficial Finance System through 1,089 offices, the largest system of its kind in the world, makes small loans generally to families to help through temporary financial emergencies with instalment repayments to come from future wages or salaries. Volume of loans in 1957 exceeded three-quarters of a billion dollars.

... a *BENEFICIAL* loan is
for a *beneficial* purpose.

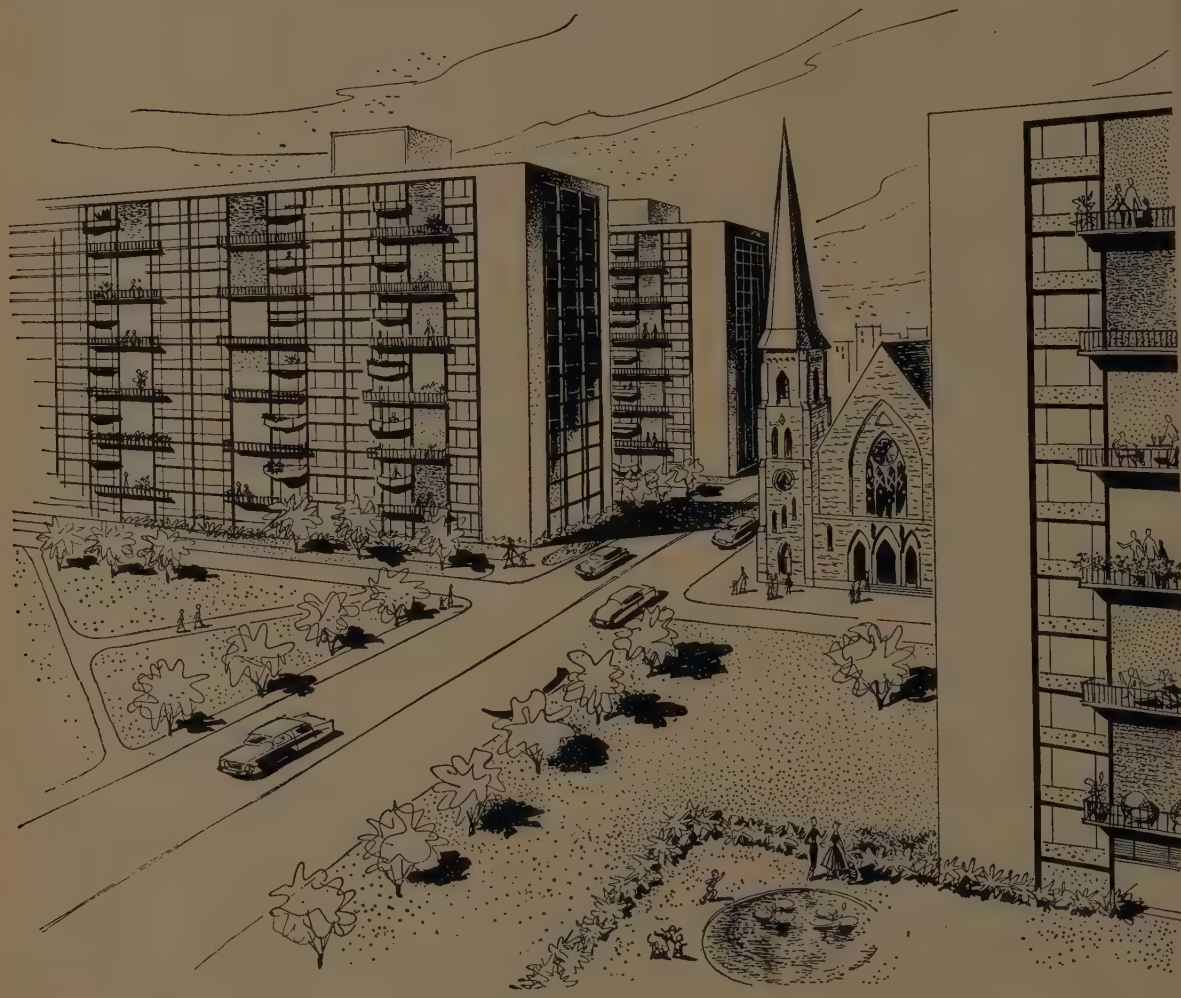
HIGHLIGHTS	1957	1956
Net Income	\$ 20,152,232	\$ 18,685,686
Net Income per Common Share (adjusted to present capitalization)	\$1.91	\$1.76
*Cash Dividends per Common Share	\$1.00	\$1.00
Total Assets	\$511,768,524	\$462,492,129
Amount of Loans Made	\$754,673,124	\$739,041,925
Number of Offices	1,089	1,023
Instalment Notes Receivable (after deducting Unearned Discount)	\$492,742,936	\$442,283,634
*Cash dividends actually paid on the Common Stock were \$1.00 per share for 1957 and 1956. Adjusted to present capitalization, such per share amounts were equal to \$.95 and \$.85, respectively.		
The information contained herein should be read in conjunction with the financial statements and notes appearing in the 1957 Annual Report to Stockholders. A COPY OF THE REPORT WILL BE FURNISHED UPON REQUEST.		

Beneficial Finance Co.

Beneficial Building, Wilmington, Delaware

MORE THAN 1,000 OFFICES IN THE UNITED STATES, CANADA, HAWAII AND ALASKA

NEW HEART FOR ST. LOUIS . . . Not more than a few blocks from the city's main arteries of business, where the wrecker's "headache ball" was swinging a few months ago, a vast job of civic surgery is about to begin. The result will be the Plaza: \$17 million worth of ultramodern, 13-story apartment buildings housing over one thousand families, who will be able to sit out on their balconies and see a great city growing greater around them.



The soon-to-be-built Plaza area in the heart of St. Louis is only one example of this city's determination to translate growth and prosperity into better living for everyone.

In recent years, St. Louis has replaced 193 acres of old dwellings with modern apartments housing 6,200 families. After the

Plaza, 461 acres of additional outmoded buildings will come down and in their place will be built a modern "suburb within a city."

New highways, schools, libraries are being built to make St. Louis a better place in which to live . . . a better place for the future.

Providing for the future power

needs of this fast burgeoning area is Union Electric's job. Already the company has doubled its capacity and its output in the decade just past. In the next five years, it will spend \$290 million for more expansion.

Union Electric is a growing company in a growing St. Louis . . . "The Strategic Center of America."

UNION ELECTRIC

The Appraisal of Stocks

RALPH A. BING

FINANCIAL ANALYSIS HAS ALWAYS FELT the need for a theory of intrinsic stock valuation that would give us a yardstick for the price range within which a stock should rationally sell, as contrasted with the price at which it happens to be quoted in the market.

A theory of stock valuation has to tackle two questions: First, what is it that lends value to an equity, and, second, what yardstick(s) should be applied to size up that value?

The first question is genetally answered by pointing to anticipated future cash receipts as the basic source of equity value. While the past record of earnings and dividends will usually influence the estimations of future performance, the past as such should not directly enter into any valuation formula.

As to valuation yardsticks, they may be of the one-factor variety, e.g., an earnings multiple, or of the weighed multi-factor variety. Furthermore, valuation yardsticks can be used to arrive either at absolute appraisals of individual stocks, or at relative appraisals related to other stocks or stock averages. The former attempts to establish whether a stock is reasonably priced in relation to its intrinsic value, while the latter tries to solve the problem of finding the comparatively best value among a number of equities at any particular moment.

This article is primarily concerned with absolute (intrinsic) stock appraisal methods. Though all agree that future cash receipts form the basis for intrinsic equity value, the methods of estimating them and the extent to which they can be reasonably estimated are controversial. The future can be compared to a straight line in space, stretching over a relatively short distance of good visibility into a much larger area of dimmed visibility, and finally losing itself in the endless areas devoid of all visibility. It is vastly a matter of personal judgment how far the road ahead is sufficiently visible to permit reasonable trend estimates. Consequently, depending on the analyst's balance between realism and vision, suggested methods for equity appraisals range all the way from focusing on a very few years to those attempting to encompass the far-distant future.

ESTIMATES OR FICTION

Before discussing some valuation formulas, it seems essential to review the central problem of predictability, even though this necessitates mentioning some commonplaces, widely known but often ignored in analytical practice.

For the sake of simplicity, let us concentrate on future company earnings, which are the source of future cash receipts by the stockholders. A company's future earnings will be influenced by two sets of factors: First, past factors that have formed its present character and still remain operative, in varying degrees; and, second, new or modified factors operative in the future.

There is a degree of inertia in economic and social life which tends to extend motion, or absence of motion, into

the future, until new influences emerge, powerful enough to change the trend. It is for that reason that the past record of companies normally furnishes some worthwhile material for prognostications. However, a multitude of influences is of course constantly at work in a dynamic society such as ours to change trends in every industry and company. Therefore, complete reliance on the past record in plotting a company's future is almost bound to prove erroneous. The significance of the past for forecasting purposes declines the further into the future a prediction attempts to reach.

Furthermore, individual business areas differ in their degree of inertia or dynamics: In certain industries catering to basic and relatively stable needs, and not subjected to abrupt technological and/or political changes, the past is a somewhat more reliable guide into the future. Among such industries are the utilities, insurance and banking, tobacco and most food processors and chain stores. On the other hand, where technological or political changes are apt to prove prime factors, such as in electronics or aircraft, reliance on the past record in forecasting the future obviously has much narrower limitations.

Finally, large, leading and well-diversified companies normally have more staying power, and are less subject to abrupt changes than the great majority of companies; consequently, past trends have somewhat greater significance in reference to the former. It is a fact that the past is never a reliable guide to the future. As an illustration, and with the benefit of hindsight, consider the successive growth trends of twelve common stocks since 1929. (See Table 1.) The 27 years from 1929 to 1956 have been subdivided into three periods, marked respectively by the peak boom year of the '20's, the country's prosperous last pre-war year of 1941, the first postwar boom year of 1947 and the boom year of 1956. The striking differences in the growth rates of the same companies from one period to the other would have been even greater but for the sharp increases in corporate income taxes. The table illustrates that projections based on the 1929-1941 trend, over the subsequent fifteen years, would have been mistaken in every single instance. The same holds true in seven out of twelve cases for 1947-56 projections, if based on the 1941-47 period.

The next question is, to what extent earnings projections can be improved by taking into account known or anticipated factors likely to alter recent trends. In their significance for the future earnings power of a company, such factors are partly related to future company management, partly to future conditions in a company's major business field(s), which in turn depend largely on future political, technological and economic developments. Some of these conditions are within a company's control, but most are not. Here is a non-exhaustive list of future factors confronting the analyst who tries to estimate a company's future earnings trend:

Table 1
Compound Annual Growth Rates of Earnings and Dividends
(On an Adjusted per Common Share Basis)

Company	1929-1941 Period		1941-1947 Period		1947-1956 Period	
	Earnings	Dividends	Earnings	Dividends	Earnings	Dividends
Air Reduction	0.1%	3.1%	- 3.8%	-10.9%	8.1%	7.4%
Crown Zellerbach	5.9	0.0	15.6	9.5	5.0	13.6
Du Pont	0.6	1.4	4.7	2.3	14.3	14.0
Eastman Kodak	- 0.6	- 1.1	11.6	1.7	9.1	10.8
General Electric	- 1.1	2.0	8.9	- 1.5	9.4	15.9
General Foods	- 2.1	- 3.3	1.9	0.0	9.5	6.6
General Motors	- 2.1	0.4	5.8	- 3.8	12.6	16.7
IBM	3.3	4.9	15.6	7.3	12.6	9.7
Minnesota Mining	10.6	11.6	16.2	4.9	13.4	19.3
Monsanto Chemical	7.0	13.8	14.2	12.5	4.6	4.5
National Lead	-5.4	1.8	19.7	21.3	19.0	19.2
Sears, Roebuck	0.2	4.3	19.2	8.8	4.2	7.9
Dow-Jones Industrials Average	- 4.4	- 4.2	8.3	3.3	6.9	10.7

(1) *General Economic Developments:*

Population; labor force; working hours; productivity per man-hour worked; monetary and fiscal policies; labor and social policies; international policies; price and wage levels; G.N.P.

(2) *Individual Industry Developments:*

Demand and supply trends in industry; competition within industry and with other industries; technological progress and productivity; labor and public relations of industry.

(3) *Individual Company Developments:*

Caliber of future management; future capacity, operational efficiency and trade position. Future moves toward diversification and/or shifts away from present lines of activities; labor and public relations; future financing of capital needs.

If one realizes how hazardous it is to plot any one of these factors ahead, even for a relatively short period, one may wonder whether any attempt to take the future dynamics of a situation into account is likely to yield less inaccurate results than simple projections of the past.

LONG-RANGE ESTIMATES

It is true that long-range estimations of population and of certain industry trends have appeared in increasing number, but it is also true that, to the extent that their accuracy can already be scrutinized with the benefit of hindsight, their record is as yet not very impressive. Take, for instance, population trends, one of the most basic factors and one where trend changes are relatively gradual. Even when no major business cycle or war has intervened to alter the birth rate, population projections have proved unreliable: About ten years ago, for instance, the United States Bureau of the Census predicted that by 1975 this country's population would reach 166,000,000 as a medium figure, and 185,000,000 as an unlikely maximum. Today, eighteen years ahead of the target year of 1975, our population has already passed the 172,000,000 mark!

Or take wars, with their profound effect on national economies: Longer-range economic forecasts are usually

made "barring a major war." However, in terms of historical experience a long-range forecast with this limitation has hardly much logic: So far, in the Twentieth Century any long-range projections beyond a 20-year span, at the most, have proved entirely mistaken if they were made on the basis of "barring a major war." On the other hand, basing long-range forecasts on the possibility or likelihood of wars would be equally futile, because economic trends characterizing war and post-war periods vary widely in magnitude, if not in direction.

The list of unpredictables can easily be extended. In our era of fast-moving research and obsolescence, technological surprises vie with political ones in limiting our foresight. New products and entirely new industries can be expected to cause many now unpredictable shifts in the future, which will benefit some companies and harm others. Finally, even the caliber of corporate management, which has a natural tendency to perpetuate itself, is, of course, not exempt from changes.

One common-sense conclusion seems inevitable: Since the significance of a company's past declines fast as one tries to probe further into its future, and since, on the other hand, a formidable number of uncertainties is encountered in sizing up new future factors and trends, the probability of making vastly erroneous forecasts obviously rises fast as one attempts to encompass a longer period of time in a forecast.

Thus, it is for good reason that corporate managements, in their routine advance planning, seldom go beyond a five-year period in a concrete and detailed way; sometimes tentative and general projections are made for an additional three to five years. A competent and reliable management normally knows more than outsiders about trends, problems and prospects in its particular industry and company, and therefore its projections are, of course among the analyst's best sources for arriving at his own earnings estimates.

Checking with different company managements within the same industry will further supplement the analyst's knowledge and outlook. Using projections of G.N.P. and other economic yardsticks, and applying postwar correlations between national output, or disposable income, on

Table 2

Some Mathematical Interpretations of a Market Price of 175,
in Terms of Present Worth of Future Dividends

(Base Year Dividend \$6.50 P. Sh.)

Remaining Life Expect- ancy of Company	Immediate Growth Period	Subsequent Static Period	Compound Annual Rate of Dividend Growth During Growth Period	
			(1)	(2)
30 years	20 years	10 years	5.0%	..
30	12	18	7.0	..
30	8	22	10.0	..
30	6	24	12.0	..
40 years	30 years	10 years	3.5%	3.04%
40	20	20	4.3	3.7
40	14	26	5.0	..
40	10	30	6.8	5.9
40	6	34	10.0	..
70 years	40 years	30 years	2.5%	2.3%
70	25	45	3.0	..
70	20	50	3.4	3.1
70	10	60	5.0	..
70	8	62	7.0	..
70	5	65	10.0	..
100 years	60 years	40 years	2.1%	2.1%
100	40	60	2.3	2.3
100	30	70	2.6	2.5
100	23	77	3.0	..
100	10	90	5.0	..
100	7	93	7.0	..

(1) Assuming the following discount rates: 5% for first 20 years; 6% for remaining life period.

(2) Assuming the following discount rates: 4-1/2% for first 20 years; 5-1/2% for subsequent 20 years; 7% for remaining life period.

the one side, and demand levels for certain products, on the other, can provide a method of roughly checking demand projections derived from other sources. In trying to extend informed projections made for the next five years over an additional few years, one should be conservative in one's assumptions of growth rates and profit margins for the more distant years.

Even in the case of companies with a high degree of stability, projections seem to cross the line from tentative estimates or informed guesstimates to plain guesses when they attempt to take in much more than ten to twelve years. For a great many weak companies or companies in fast-shifting business areas, the line may be crossed in projections extending only over a few years.

INTRINSIC VALUATION FORMULAS

It is in light of these limitations of predictability that a few valuation formulas will be briefly discussed in the following:

The stock appraisal method analogous to the accepted theory of bond valuation is based upon the present valuation of all future cash receipts from a stock until the company's final liquidation. While most satisfactory on strictly logical grounds, this theory cannot be applied in practice except through a generous use of fiction. First, the remaining life expectancy of companies is normally a matter of mere guessing. However, a small minority of very

stable and strong companies in manufacturing and commerce, and most electric utility companies, could probably be reasonably expected to live on for at least three or four decades or more. On strictly arithmetical grounds, this might qualify them for a rough estimate of the type required by this theory, since the relative importance of the present value of future dividends declines sharply for those payable in more distant decades. For example, at a discount rate of 5 per cent the aggregate present value of equal annual future dividends is only 15½ per cent greater in the case of a company with a remaining life expectancy of 100 years than it would be for one destined to live for only 40 more years. However, the second hurdle, that of predicting a company's earnings and dividends over at least three or four decades, cannot be cleared, as should be apparent from what has been said earlier about our forecasting limitations.

If the bond appraisal method cannot be used to pinpoint a positive stock appraisal, could it not at least be used to check back from a given actual market price as to the rationality of that price?

Let us take a concrete example: By mid-November, 1957, the common stock of Du Pont sold in the neighborhood of \$175 on the New York Stock Exchange. In terms of the present value of total future dividend receipts, that price could be explained by innumerable different combinations of the basic factors of life expectancy, growth period(s), growth rate(s) and discount rates, as illustrated in Table 2 through a few examples.

As can be seen from these figures, the market price of \$175 could, for instance, be "justified" by such vastly different factor combinations as a life expectancy of 40 years and 10 years' growth, or a life expectancy of 100 years and 60 years' growth, depending on postulated annual compound growth rates of 6.8% or 2.1%, respectively (assuming a discount rate of 5% for the first 20 years and 6% for the remaining life period).

It is true that in the case of Du Pont some of the possible combinations would at present appear unlikely, such as a growth period of less than 10 years, or a growth rate of only 3%. Nevertheless, there are obviously a great many possible combinations "justifying" a price of \$175, each of which is perfectly reasonable in the sense that, based on past experience and common sense reasoning, it might well be borne out by future events.

In reverse, this also means that a wide price range for Du Pont could be justified and considered "rational" within this framework of reference. Therefore the method, in practice, will not be very helpful in testing the rationality of any stock market price. It basically suffers, of course, from the same lack of clearly definable long-term dividend prospects from which the positive bond appraisal method of stocks suffers. And in fact the above calculations also serve as a further illustration for that method's basic weakness.

The best one might say is that the check-back method will uncover extremely irrational market appraisals that imply future dividend distributions of a pattern outside all probability. However, in such extreme cases it would hardly be necessary to take recourse to this mathematically cum-

Table 3
Some Benchmarks for Earnings and Yield Ratios

	D.-J. Ind. Av.	S. & P. Ind. Av.	Am. T. & T.	Woolworth	Four Stable Ind. Stocks (1)	Four Steel Stocks (2)
Av. Earnings Multiple:						
1934-56	13.26	12.93	15.69	14.2	15.3	9.60
1947-56	10.14	9.62	14.54	13.2	13.2	5.96
Est. 1957	13.10	12.70	12.80	11.8	12.2	9.40
Av. Yields:						
1934-56	5.17%	5.13%	5.99%	5.15%	5.48%	5.56%
1947-56	5.87%	5.55%	5.64%	5.39%	5.57%	7.51%
Av. Yields Times Av.						
S. & P. A1 Bond Yields:						
1937-56	1.87	1.86	2.02	1.82	1.90	2.15
1952-56	1.69	1.64	1.75	1.72	1.71	2.05
Compound Annual						
P. Sh. Earn. Growth:						
1929/30-1955/56	3-1/4%	3-1/2%	0.0%	0%	1/4%	6-1/2% ⁽⁵⁾
1947/48-1956/57 ⁽³⁾	5-1/4%	7-1/2%	4.0%	-1-3/4%	1%	7-3/4%
P. Sh. Earn. Decline: ⁽⁴⁾						
1929-32	103%	77.0%	62.0%	38.0%	43.7%	150% ⁽⁵⁾
1937-38	47.5	37.0	14.8	13.7	(17.6)	164
1948-49	(2.0)	(19.5)	1.6	14.4	(1.8)	(8.5)
1953-54	(4.3)	(6.9)	(1.8)	9.8	(2.5)	4.6

(1) Woolworth, Cream of Wheat, Corn Products Refining and Quaker Oats.

(2) Armco, Bethlehem, Republic and U. S. Steel.

(3) 1957 earnings are estimated.

(4) Figures in () indicate earnings increases.

(5) Exclusive of Republic Steel.

bersome method in order to arrive at the conclusion that a specific market price happens to be quite irrational.

I again suggest bringing the time period to be covered by future earnings estimates more in line with present limitations as to predictability, roughly a maximum of 10 to 12 years for well-established companies, and less in many other instances. Assuming that the analyst has obtained estimates of this kind, which valuation yardsticks should be applied? I am afraid the answer to this question, in order to be practical, has to be on the factual, pragmatic side, using largely the historical pattern of certain price ratios. Consequently, here is a brief summary of a few such key ratios: (See Table 3.)

The earnings trend of the D.-J. and the S. & P. Industrial Averages broadly mirrors the growth of the economy as a whole, whereas American Telephone and Telegraph, as well as Woolworth and the other three stable industrial stocks, have been "ideally" static, hardly showing any growth. Nevertheless, the latter have been selling in the past at a mean earnings multiple of 1 to 3 points above those of the Industrial Averages. This differential must be primarily attributed to the expected greater earnings and market stability of the former and secondarily to an earlier expectation that their earnings would grow roughly in line with the economy. The latter expectations having proved erroneous for the past decades, these stocks have been selling lately at multiples a shade below those of the Industrial Averages. Hence, it seems that an expected unusual degree of earnings and price stability, without growth expectations, is rated about the same as average stability with average growth, or around 11 to 13 times earnings.

On the other hand, the four steel stocks, showing above-average earnings growth, but, until recently, considered highly unstable, show historical minimum multiples of 3 to 4 points below those of the Industrial Averages.

Thus the factor of earnings and market stability has always been a major one in putting a premium or a discount on stock appraisals: where expected growth is about equal, this stability factor may account for up to 2 or 3 points above the average industrial multiples, and up to 3 or 4 points on the lower side, respectively (excluding stocks too marginal and speculative to be in the province of thorough financial analysis). Within that broad range it is a matter of judgment to assign a stability rating to any individual stock, although more detailed research might yield some refinements.

HISTORICAL RATIOS

Whereas these historical ratios can be directly applied to stocks expected to have average growth or to be static, making adjustments for the stability factor, the valuation of growth stocks (that is, stocks with expected above-average per-share earnings improvement on a trend basis) presents a notoriously difficult problem. It seems that one may start out from the fact that growth beyond the next five to six years appears normally more indefinite in pace and duration, and consequently should be discounted with caution. Therefore one may postulate that growth stocks should normally sell at near-average industrial ratios of 11 to 13 times in relation to earnings expected about five years from now. This would imply the likelihood of some further growth beyond that period, so as to compensate the investor

eventually for the relatively low yield in the initial period, and for the uncertainties inherent in pre-guessing growth.

Where significant growth beyond five to six years appears quite questionable, the stock's current value should be gauged by relating it to the future earnings power of only three to four years from now. On the other hand, in a few exceptional cases of companies with extraordinarily bright growth prospects, it may be indicated to apply the average multiple to prospective earnings power six or even seven years from now. Moreover, in the case of growth stocks, like in others, the factor of earnings stability must be given some weight in the way outlined earlier.

For instance, if one were convinced that IBM's earnings should grow by an average of 12%, compounded annually, its fully consolidated earnings seven years from now would be nearly \$21 per share; applying a multiplier of 14 to such earnings power, one would arrive at a price of about \$300 as a benchmark for a reasonable appraisal.

In hindsight, Table 4 below shows the deviations of the actual market multiples from those postulated for ten growth stocks, taking as a base 1935-36 and 1950-51, respectively. (The former period was one of relatively high market levels, the latter one of relatively low levels.)

Table 4. Price Times Earnings of 5 Years Later

Common Stock	Mean '35/'36 Price Times Average '40/'41 Earnings	Mean '50/'51 Price Times Average '55/'56 Earnings
Du Pont	18.8	9.4
Eastman Kodak	18.6	7.5
General Electric	19.0	7.1
IBM	12.9	9.7
International Paper	...	5.1
Minnesota Mining	5.3	8.6
Monsanto Chemical	18.1	13.8
National Lead	20.5	4.9
Shell Oil	14.1	5.6
Union Carbide & Carbon	16.4	11.2

Table 5

(1) Years Needed to Accumulate Earnings Equal to Mean Price in Base Year
(Base Year Plus Subsequent Years)

Compared With

(2) Base Year Mean Price Times Earnings

Base Year	Standard & Poor's Industrial Average		Woolworth		Quaker Oats		Corn Prod. Refg.		Cream of Wheat	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
1926	13	10.8	....	....	....	....	....	....	....	....
1928	20-1/2	17.4	....	....	....	....	....	....	....	....
1930	18-3/4	15.8	18-1/2	17.4	28-1/2	21.5	23	18.1	14-1/4	9.6
1933	9-1/2	24.6	13-1/2	12.8	16-3/4	21.7	18	17.6	15-1/2	14.4
1936	13-1/2	18.7	19-1/3	17.3	18	19.2	18	28.9	18-1/2	15.6
1939	10-1/3	16.3	14-1/2	14.2	15-1/2	18.9	14-1/4	18.4	15-1/4	16.7
1946	6-1/2	19.0	*11-1/2	17.2	11-1/2	13.2	11-1/2	14.2	*11	13.3
1949	5-3/4	6.2	†	†	†	†	†	†	†	†
1951	7-1/3	8.4	†	†	†	†	†	†	†	†
Average	11.7	15.3	15.5	15.8	18.0	18.9	16.9	19.4	14.9	13.9

*Base Year 1944.

†Earnings in base year plus subsequent years to end of 1957 aggregate less than mean price in base year.

Table 6

\$1 Earnings, Compounded at Indicated Annual Growth Rates,
Will Aggregate as Follows:

Straight Growth Rate	Over 10 Years	Over 12 Years	Over 13 Years	Split Growth Rates:			Over 10 Years	Over 12 Years	Over 13 Years
				First 5 Years	*Remaining Years				
0%	\$10.00	\$12.00	\$ 13.00	0%	0%		\$10.00	\$12.00	\$13.00
3	11.80	14.60	16.06	3	2		11.52	14.29	15.64
4	12.48	15.62	17.28	4	2.7		12.21	15.11	16.62
5	13.27	16.78	18.67	5	3.3		12.87	16.02	17.68
6	13.77	17.68	19.81	6	4.0		13.37	16.76	18.60
7	14.78	19.15	21.57	7	4.7		14.22	17.99	20.02
8	15.26	20.11	22.83	8	5.3		14.93	19.04	21.27
9	16.56	21.95	25.01	9	6.0		15.71	20.20	22.65
10	17.63	23.62	26.95	10	6.7		16.61	21.53	24.24
12	19.54	26.92	31.29	12	6.0		17.64	22.79	25.60
15	23.25	33.18	39.34	15	7.5		20.28	26.71	30.28
20	31.12	47.48	58.20	20	10.0		25.63	34.87	40.19
25	41.17	67.06	85.22	25	12.5		32.20	45.26	53.04
30	55.13	96.08	126.41	30	15.0		40.51	58.91	70.27

*Rate about one-third below that of first 5 years for initial rates up to 10%; higher initial rates are halved for remaining period. Available information may well justify quite different combinations of growth rates for the entire period.

Table 7
Mean Prices vs. Aggregate Earnings in Subsequent 12 Years

Stock	(1) 1946 Mean Price	(2) Aggregate 1946-47 Earnings	(3) (2) as % of (1)	(4) 1946 Mean P. × E.	(5) 1929 Mean Price	(6) Aggregate 1929-40 Earnings	(7) (6) as % of (5)	(8) 1929 Mean P. × E.
Du Pont	48-1/2	\$67.07	138%	20.4	39	\$15.69	40.2%	22.2
Eastman Kodak	31-1/2	39.70	126	16.0	28-1/2	11.85	41.7	21.7
General Electric	14	21.96	156	28.0	23-1/2	5.31	22.6	31.4
I.B.M.	30	47.78	159	16.8	10-1/2	8.59	82.0	16.4
International Paper	15-1/2	67.20	432	5.5				
Minnesota Mining	6-1/2	15.77	243	10.2	3/4	1.70	226.0	8.3
Monsanto Chemical	10	18.12	181	12.6	3-1/2	3.79	108.0	14.6
National Lead	12-1/2	30.91	247	15.2	5-1/2	4.20	76.5	6.5
Shell Oil	16	39.72	248	14.7	11-1/2	1.43	12.4	20.6
Union Carbide Corp.	35-1/2	43.89	124	17.5	33-1/2	12.31	36.8	25.6

*Adjusted to stock splits and stock dividends. 1957 earnings are estimated.

Obviously, actual multiples in many cases were substantially removed from postulated ratios. It appears that the frequent discrepancies between market and intrinsic values (as easily seen in hindsight) emphasize our shortcomings in earnings forecasts, rather than disprove the validity of valuation formulas.

VALUATION OF DYNAMIC STOCKS

Finally, here is a second suggestion for a rough guidepost for the valuation of dynamic stocks. The mean earnings multiple of static stocks also indicates the approximate number of years needed to accumulate earnings equal to their market price. For instance, at its 1934-56 mean multiple of 14.2, the price of a share of Woolworth would normally have been approximately "amortized" by earnings in the subsequent fourteen years. On the other hand, for the S. & P. Industrial Average, that period has varied widely over the past 25 years, around a mean of 11 years, as illustrated in Table 5. It seems reasonable to postulate that, in view of low current yields and the uncertainties inherent in growth, growth stocks should be priced so as to permit "amortization" of cost through earnings faster than stable non-dynamic stocks, somewhere in the neighborhood of that afforded by the S. & P. historical average of about 11 or 12 years' earnings.

The "amortization" period should be moderately shorter, up to one or two years, in the case of stocks expected to enjoy unusually rapid growth of perhaps 10% or more compounded annually. Furthermore, expected above-average or below-average earnings stability should also be considered, by lengthening the amortization period up to 15 or 20% for very stable growth stocks, and shortening it correspondingly for growth stocks of below-average stability.

To assist in applying this yardstick, Table 6 shows how one-dollar earnings will aggregate at various growth rates

over periods of 10, 12 or 13 years, respectively. Again, with the benefit of hindsight, Table 7 applies this method to some growth stocks for the 12-year periods starting in 1929 and 1946, respectively. As may be expected, most stocks in 1929 appear to have been grossly overvalued, as measured by this formula, while all tabulated stocks were undervalued in varying degrees in 1946.

Current earnings multiples, as postulated by this valuation method, when transformed into corresponding multiples on prospective earnings five years later, fall within the average 11 to 13 multiple range, as postulated by the method suggested earlier.

Annual Compound Growth Rate	Postulated Current Multiple-Earn. Accumulation Starting With \$1.—in Base Year, Over	Equivalent Multiple On Earnings 5 Years From Now
	11 Years	12 Years
	(1)	(2)
0%	11.0	12.0
3%	13.3	14.6
6%	15.8	17.7
12%	19.5*	23.3*

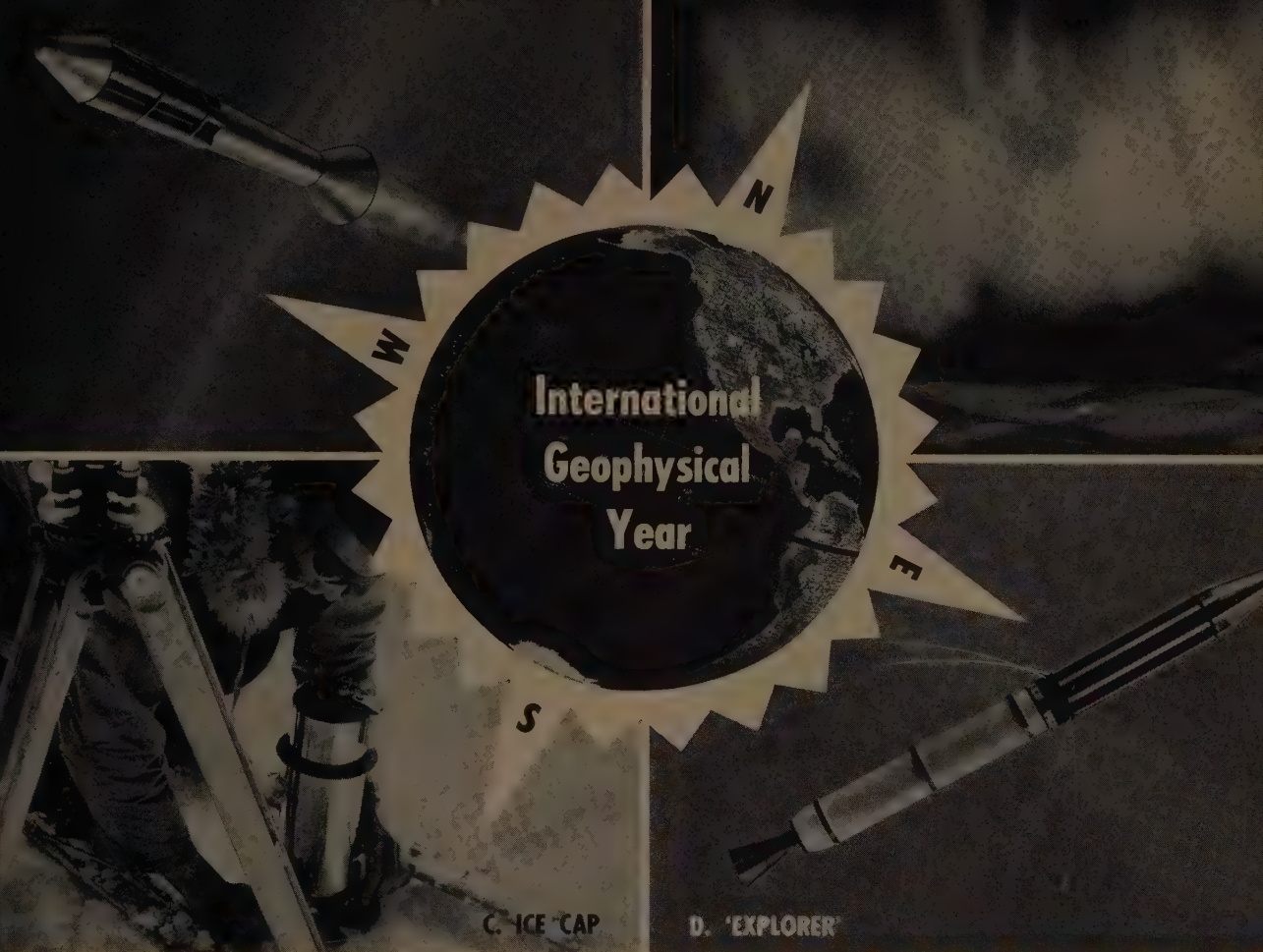
*Using an accumulation period of only 10 years, and 11 years, respectively (see text).

VALUATION FORMULAS AS USEFUL TOOLS

Valuation formulas are useful tools in the search for an approximate range for basic stock appraisals; however, they are far from producing precise answers to questions of valuation, and will always leave to sound judgment the task of weighing the many imponderables present in every individual situation. Financial analysis, as applied to basic equity valuation, is bound to remain an incomplete science, handicapped by limited foresight and the crudeness of yardsticks. Let us admit this freely instead of trying to convert it into a pseudo-science.

* * *

The purpose of weighting is to make movements of the prices of the more important stocks influence movements of the index numbers more than do movements of the prices of the less important stocks.



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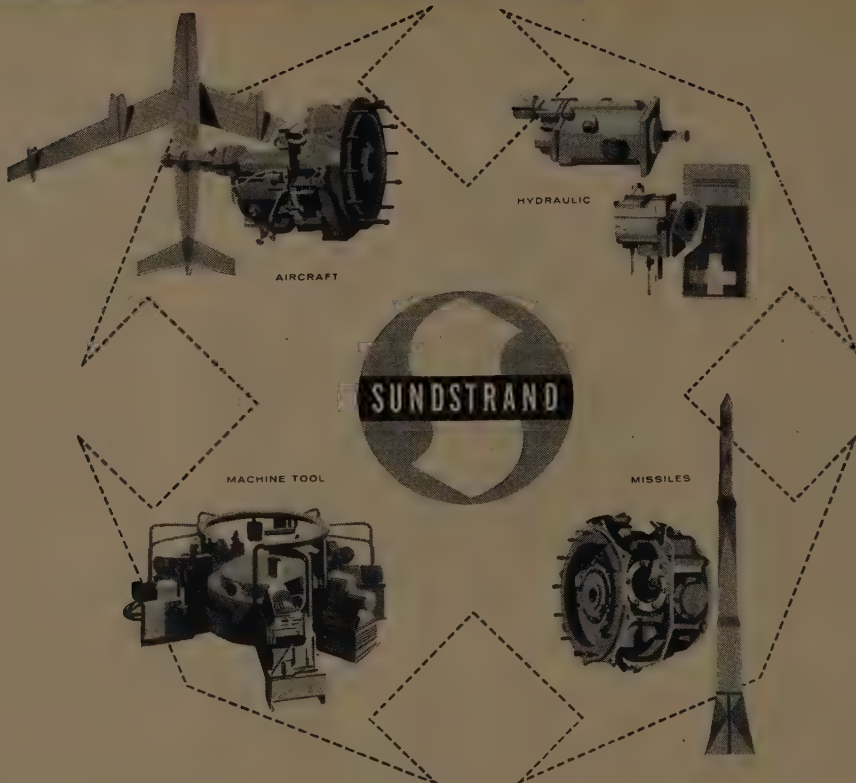
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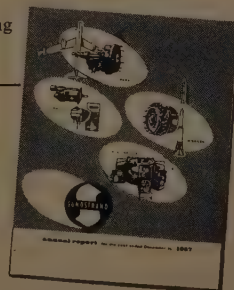
Bruce F. Larson
President

COMPARATIVE STATEMENTS OF INCOME

	1957	1956
Net Sales	\$77,522,897	\$65,371,763
Net Earnings Before Taxes	7,216,753	6,716,800
Income Taxes	3,617,800	3,357,000
Income Taxes per Share	2.36	2.51
Net Earnings after Taxes	3,598,953	3,359,800
Earnings per Share	2.34 (a)	2.51 (a)
Shares Outstanding	1,535,178	1,335,677

(a) Based on shares outstanding end of year.

Copies of our 1957 Annual Report are available upon request. Address Sundstrand, Rockford, Ill.



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A Practical Approach to Common Stock Valuation

ROBERT HEILBRUNN

A PROBLEM WHICH HAS BEEN the subject of much study by security analysts as well as by investors in general is the determination of reasonably correct buying and selling levels for common stocks.

The severe decline suffered by the stock market last year which followed promptly on the heels of one of its greatest advances, very appropriately points up the importance of this problem.

Due to the fact that stocks generally approach extremes prior to the end of both bull and bear market movements, as a result of the over-enthusiasm and over-pessimism of the investing public, an analysis of the statistics of these advances and declines might conceivably furnish a clue to these over and under valuations.

Since it is acknowledged that earnings and dividends are probably the most important determinants of common stock values, a thorough study of these two factors is in order to see whether they might be the keys to the solution of this problem.

As an illustration, Table I contains various statistical data concerning United States Steel Corporation for the past ten years, which upon careful examination appears to contain some very significant facts. The market seems to be trying to tell a story, but very often it is written in its own secret cipher, which must be, so to speak, decoded by the analyst before it can be put to profitable use.

It must be stated that although the determination of buying and selling levels based on this information is by no means infallible, the analysis of the statistics does appear to furnish a reasonably reliable guide to profitable buying and selling levels. Nor is it absolutely essential for such determination to be completely efficient in order for it to be profitable to use. There will never be a workable method of buying at the bottom and selling at the top, but this technique does make it possible to capture a worthwhile percentage of a stock's fluctuation.

The high price earnings ratio, which, as shown by Table I, range from a maximum of 12.2 to a minimum of 4.9, with an average of 8.1, certainly ought to suggest to the analyst that he should begin to think in terms of selling when the ratio reaches approximately 8 or higher and conversely the low price earnings ratios, which range from a maximum of 8.5 to a minimum of 3.5, with an average of 5.6, should suggest consideration of the advisability of buying when the ratio reaches approximately 6 or lower.

INDICATIONS OF HIGH PRICE EARNINGS RATIO

Even in the inflated year of 1929 the record shows that the high price earnings ratio was 12.4, which would definitely support the advisability of selling somewhere above 8 times earnings. The fact that the ratios carried varying distances above and below the average supplies the analyst with the opportunity to calculate more advantageous buying and selling levels than the averages above mentioned

by making use of current quarterly earnings reports to obtain reasonably accurate estimates of future earnings, and deferring sales where indicated by rising earnings and dividends, as in 1955.

Without making any allowances for possible better buying and selling levels, which in the normal course of events should be obtainable as previously explained and acting entirely arbitrarily when ratios of 5.6 and 8.1 were reached, the results shown in Table II would have been obtained.

A similar technique can be applied using yields. To illustrate, the thinking about the price dividend relationship would go something like this: Begin to think in terms of buying when the yields are high, generally anywhere from the 10-year average of highs of about 8.5% and up, and in terms of selling when the yield drops below the 10-year average of lows of about 6%.

Using this method, again without any allowances for possible improvement in timing, would give the results shown in Table III. Of course both the price earnings ratio analysis and the yield analysis should be used together to supplement each other. In the same way as previously explained in the case of price earnings ratios, estimates of future dividends can be correlated to prices to obtain more profitable buying and selling levels than indicated in Table III. Not only does the use of this method make for more satisfactory investment results from a capital gains point of view, but requiring purchases to be made when yields are high and sales when yields are low assures a better dividend return than can be obtained by continuous investment.

The rates at which earnings and dividends are capitalized in a free and open market by the investing public over a period of years is more likely to be a reliable estimate of a stock's intrinsic value than any other appraisal, since it is based on the opinions of the largest possible number of investors; from the most fully informed to the completely uninformed. Furthermore, since it covers a long period of years and all types of market conditions, it tends to average out any and all inequalities.

The yearly range of market prices produced by the varying multipliers applied to earnings is sufficiently wide to offer an alert investor frequent opportunities to take advantage of these fluctuations.

For the ten years 1947 through 1956 the annual spread was approximately as shown in Table IV.

In actual practice the results should be considerably improved, as the figures for the latest year would be added and those for the earliest year dropped in keeping the average of ratios up to date. For the sake of simplification this operation was omitted in the subject computation.

In addition to the utility of this technique for use with individual issues it is also a reliable guide to the market as a whole. If a sufficient number of analyses of representative issues are made, the analyst will find that when a

TABLE I—CALCULATION OF PRICE EARNINGS RATIOS AND YIELDS

UNITED STATES STEEL CORPORATION

Year	Price Range	Earnings	Dividends	Price Earnings Ratio		Yield at		Book Value	Sales (Thous.)	Operating Profit (Thous.)	Pretax Profit Margin	% Com. Earnings Dist.
				High	Low	High	Low					
1947	13-3/8 10-1/4	\$1.93	\$0.83	6.9	5.3	6.2%	8.0%	\$24.56	\$2,115,835	\$ 332,111	15.6%	43.0%
1948	14-5/8 11-1/4	2.00	0.83	7.3	5.6	5.6	7.3	30.61	2,473,143	382,150	15.4	41.5
1949	13-1/4 10-1/8	2.70	1.12	4.9	3.7	8.4	11.0	32.08	2,292,071	408,456	17.8	41.4
1950	21-3/8 12-7/8	3.64	1.72	5.8	3.5	8.0	13.3	33.89	2,946,545	593,752	20.1	47.2
1951	23-7/8 18-3/8	3.05	1.50	7.8	6.0	6.2	8.1	35.38	3,509,700	744,670	21.2	49.1
1952	21-1/4 18-1/2	2.27	1.50	9.3	8.1	7.0	8.1	36.04	3,131,732	434,988	13.8	66.0
1953	22-1/8 16-3/4	3.77	1.50	5.8	4.4	6.7	8.9	38.20	3,853,054	783,775	20.3	39.7
1954	37-1/4 19-1/2	3.22	1.50	11.5	6.0	4.0	7.6	39.60	3,241,326	652,448	20.1	46.5
1955	62-1/4 33-7/8	6.45	2.15	9.6	5.2	3.4	6.3	43.48	4,079,765	1,030,371	25.2	33.3
1956	73-3/4 51-3/8	6.01	2.60	12.2	8.5	3.5	5.0	46.72	4,198,823	964,364	22.9	43.2
Average				8.1	5.6	5.9	8.4					

Prices, earnings, dividends and book values have been adjusted for the 3 for 1 stock split in May 1949 and for the 2 for 1 split in May 1955.

Source: Standard & Poor's Corporation Records.

substantial majority indicate over-valuation, it is indicative of the condition of the market generally and, of course, the converse is true as well. As a matter of fact, the determination of the fact that the market as a whole is too high can be a more valuable point of information for the investor than the evaluation of any individual issue.

Although United States Steel Corporation was used as an illustration because of the wide interest that exists in it, there are many other cases where the results are much more satisfactory and convincing.

This technique can be applied equally well to railroad and public utility stocks as to industrials.

A study of the progressively changing book values will serve as a verification of the earnings record and the re-investment of retained earnings. The record of profit margins will furnish an indication of the growth potentialities possessed by the company. And an analysis of the percentage of earnings distributed is useful in projecting dividends.

The results that can be achieved by this technique are dependent entirely upon the perspicacity and ability of the analyst in projecting earnings and dividends as well as in accurately relating them to prices. Although they will deviate to some degree from optimum results, this technique cannot avoid being helpful in establishing buying levels when prices are relatively high. In this respect it acts as a valuable aid against becoming infected by the viruses of over-optimism and over-pessimism to which so many investors succumb from time to time. One cannot stress too emphatically the importance of selling in the latter phase of bull market cycles. As the market moves along to higher and higher levels the optimism and enthusiasm of investors moves right along with it. Stocks that in another day would have been considered unattractive at 8 or 10 times earnings suddenly seem to have acquired a new glamour at 18 or 20 times earnings. And not only has the multiplier doubled, but very often earnings have increased substantially, thereby placing the investor in even greater jeopardy.

Table II
Transactions Based on Average Price Earnings Ratios

Year	Purchase Price	Selling Price	Profit	Price Earnings Ratio
1947	11			5.6
1952		18	7	8.1
1953	21			5.6
1954		26	5	8.1
1955	36			5.6
1956		49	13	8.1
Total			25	
Average gain per annum on invested capital 18%.				

Table III
Transactions Based on Average Yields

Year	Purchase Price	Selling Price	Profit	Yield
1949	13			8.4%
1954		25	12	5.9%

Average gain per annum on invested capital 19%.

Table IV
Annual Per Cent Spread Between High and Low
1947 through 1956

Number of Years	Approximate Annual % Spread
1	15
3	30
1	31
1	32
1	44
1	66
1	84
1	91

In connection with the matter of the changing valuations placed on securities by the investing public, an interesting and I believe reasonably valid analogy can be drawn between the stock market on the one hand and nature on the other hand in terms of climate as exhibited in the seasons of the year.

Although, according to the calendar, the year begins in the middle of the winter, nature's awakening actually starts in the spring and progresses through the succeeding seasons of summer, autumn and winter, to be followed by the same cycle over and over again. In similar manner, the stock market proceeds through its phases of accumulation, advance, distribution and decline. Just as the farmer has to plant in the spring, conscientiously tend his crops all summer long and harvest them in the fall if he expects his efforts to be financially successful, so in the same way must the investor make his purchases at attractive prices when price earnings ratios are low and yields high, at the beginning of an upward stock market cycle, continuously scrutinizing his holdings as the market moves along, constantly pruning and weeding out undesirable issues and replacing them with more attractive ones, using as a basis of determination the method herein described. Finally, when the cycle is approaching its end, and this event is readily subject to determination, as previously explained, and a preponderance of issues are priced at overvalued levels, the investor must sell them at relatively inflated levels when the price earnings ratios are high and yields low. If he fails to do this he will find that he has overstayed the market and that most of his holdings have declined together with it. He has just gone along for the ride and will have to wait for an entirely new market cycle to bail him out.

INFLATION

A great deal has been said and written in the past few years concerning the subject of inflation and the thought has been frequently expressed that equities make a satisfactory hedge against the diminution of the purchasing power of the dollar. Although it is generally agreed by the financial community that stocks do furnish protection against this decrease in the dollar's purchasing power, the action of the stock market last year indicated in no uncertain terms that the threat of inflation to the contrary notwithstanding stock market cycles still appear to be functioning in both directions with their full quota of vigor and the investor still must be on his guard if he wishes to obtain the fullest possible advantage from the market's fluctuations and come as close as possible to compliance with the old adage, "Buy them when they're low and sell them when they're high."

A feeling of over-optimism in bull markets is one which must be very carefully guarded against by the professional investor as well as by the amateur, since it is generally acknowledged that the experienced investor as well as the neophyte is influenced in varying degree by the tremendous quantity of bullish sentiment in the form of newspaper and magazine articles, speeches, reports, analyses and the like, which emanate from the financial district. This statement is in no way to be construed as a criticism of the security analyst, but being human, and this is probably a disadvan-

tage in this profession, he is subject to the same psychological pressures as everyone else. It is especially important and very difficult in such times not to be influenced by these pressures from sticking to fundamentals and continuing to make decisions strictly on the basis of the facts.

The problem of selling at the right time in bull markets is more serious than the problem of buying at the right time in bear markets, because while in a bear market the analyst has to overcome the existing bearish psychology if he wishes to recommend buying on the basis of a quantitative analysis, the decision to sell is the more difficult, since most people are normally optimistic and are naturally inclined to look at the bright side of things. Therefore, the analyst is going to find it difficult to obtain acceptance of a bearish viewpoint, especially if the market continues to advance and temporarily it appears that he is wrong.

There is no substitute for continuous and careful watchfulness combined with a program of action to implement investment decisions. The one thing we do know is that securities fluctuate and to take advantage of these fluctuations when they go too far afield, and the record shows that they certainly do, from time to time, is the essence of good investment management. It is asserted by some investors that the growth factor and the continuous income from dividends make stocks a suitable medium for perpetual holding. However, what is lost in holding stocks during declines can never be offset by dividends paid during this period, and even if growth stocks do advance continually, they also fluctuate, as we have recently witnessed. If only a portion of this fluctuation can be secured it is well worth while.

Another aspect of investment management which is extremely vital is that concerning the investor's attitude toward his holdings. One of the old axioms of investment is, "Sell to the sleeping point." The adoption of an investment policy as herein described will not only prove financially profitable but it should make the investor feel a lot more comfortable with his holdings in the knowledge that he is a buyer when they are statistically attractive and a seller when they are statistically unattractive. Since so many investors are constantly worrying about their holdings, a method of automatically buying and selling when the price earnings and price dividend relationships so indicate should go a long way towards making happier investors and consequently happier investment advisors.

SUMMARIZATION

There is nothing basically unique about the method described, since price-earnings and price-dividend relationships are constantly being studied by analysts. Yet the fact that these relationships are continuously changing and very often to a considerable degree, does without a doubt create opportunities for judicious buying and selling. It is the writer's opinion, based on personal investigation and observation, that to a considerable extent they are ignored by many investors.

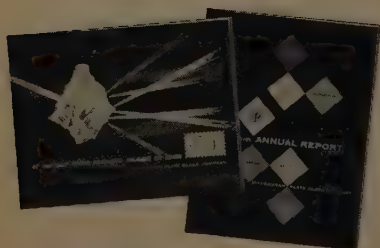
A greater awareness on the part of analysts concerning such opportunities for greater profits, income and safety should unquestionably prove to be an important advantage to the investing public.



Financial Highlights for 1957

IN 1957, the Pittsburgh Plate Glass Company established a new high in sales for the third successive year. Consolidated net sales of \$620,803,000 showed an increase of 4 per cent over the 1956 record of \$596,574,000. Net earnings were \$57,963,000, or \$5.86 per share, compared with \$5.62 per share in 1956. Below are the Financial Highlights for 1957 compared with those of 1956.

	1957	1956
Net Sales	\$620,803,000	\$596,574,000
Income Taxes	\$ 54,800,000	\$ 60,800,000
Net Earnings	\$ 57,963,000	\$ 55,382,000
Per Share { Net Earnings	\$5.86	\$5.62
Dividends	\$2.75	\$2.75
Expenditures for Plant and Equipment	\$ 64,003,000	\$ 70,569,000
Unexpended Authorizations for Plant and Equipment	\$ 59,000,000	\$ 82,600,000
Working Capital	\$134,876,000	\$147,235,000
Number of Employees	35,304	34,983
Number of Shareholders	19,945	19,468



This year—1958—the Pittsburgh Plate Glass Company is celebrating its 75th Anniversary. A brief, illustrated history of the Company titled “It Began With Making Glass In 1883” has been published to commemorate the anniversary. Copies of this booklet, together with the 1957 Annual Report, may be had from Public Relations Department, Pittsburgh Plate Glass Company, 632 Ft. Duquesne Blvd., Pittsburgh 22, Pa.



SYMBOL OF SERVICE FOR SEVENTY-FIVE YEARS
PITTSBURGH PLATE GLASS COMPANY

and its wholly-owned subsidiary, Columbia Southern Chemical Corporation

The Important Place of Security Analyzation

ALBERT C. LIEBERT

AS OFTEN HAPPENS, we may become so involved in our work that we neglect to see it in the proper perspective. Yet in reality this perspective gives a vital and practical meaning to the opinions of the security analysts. A survey might be made on a stock and a conclusion drawn showing its various merits as a growth, income or speculative issue. Recommendations could be given concerning which types of portfolios should contain this stock. All of these efforts of a security analyst, his studies on a corporation's future, its present status and past history, will be of little avail if he does not understand the proper place for his findings. It is one thing to analyze a security and quite a different responsibility to use these results wisely in the field of investing. The analyst cannot be content to stop after his surveys of a stock and suppose his work is finished. On the contrary, he must go further and at least lend his support to the proper use of his own findings.

RELATIONSHIP AFFECTING THE INVESTOR

In order to foster the intelligent use of his work, the security analyst must understand the various relationships affecting the investor. Actually there are three factors that surround the position of every investor. They include: first, an analysis of the investor's personal and financial position; second, the analyzation of securities, and, third, an analysis of the investor's relation to the securities. Note that security analyzation occupies the second step. To the investor the process of security analyzation is of equal importance to the first and third processes. An explanation of all three factors involved will further clarify their relationships and for our interests in particular will illustrate the important place and necessity of security analyzation.

The first factor requires the investor to take an inventory of his assets and liabilities, his capacity to save and risk earnings. A wise investor whose assets do not appreciably exceed his liabilities is not in any position, for example, to buy long-term, low-yielding growth stocks, if he is in any position to buy stocks at all. To realize a gain with this type of investment he must have sufficient resources to hold the issue during the uncertainties of the future. It is obvious that his financial position will not support such a requirement. For much the same reason one who did not have a wide margin of savings left from his income would be foolish to concentrate on speculative issues.

AGE AS A FACTOR

Financial considerations will not constitute the sole limitation on the types of securities he should purchase. Other factors such as age and family responsibilities are of equal importance and will impose their restrictions. A young man, for example, with a \$25,000 portfolio might accent growth securities mixed with very few speculative issues. All things being equal, his age alone will permit him to take more risk. An older man, however, with the same

size portfolio would have little use concentrating on long-term growth issues or even speculative securities. His objective should be to keep his portfolio safely invested with a moderate income so that his financial worries would be few during the remaining years of his life. Long-term growth issues would never be fully realized in such a portfolio because of the age of the investor. On the other hand, speculative issues would involve excessive risk to an older man whose more active and productive years have passed.

In short, everyone must first decide whether his financial position will allow him to start an investing program. Then he must determine what kind of investments are best suited to his particular position. These may include corporate bonds, government securities, common or preferred stocks, first mortgage loans, real estate, etc. In the beginning smaller accounts will have to concentrate on one or two. Larger accounts will be able to diversify into all of these fields. Regardless of size, each will have the problem of deciding how much capital to place in any one field. Finally the investor will have to decide whether to invest in the income, growth or speculative issues that exist within each field.

An accurate survey of the investor's personal and financial position is a necessary step toward wise investing. A brilliant investigation of a security by an analyst may mean very little if the wrong type of security is bought for a portfolio. Thus, all of our efforts in the field of security analyzation will fall on barren ground if we do not remember that there is a vast difference between the value of the security itself and the relationship of a particular portfolio to that security.

THE COMPANY'S FUTURE

The second factor confronting the investor is the position of the security. Here is where security analyzation properly speaking lies. The security analyst must investigate a company from three aspects: its history, present status and position for the future. Historical analyzation will give an insight into a company's earning powers during the good and poor years of the past. It will reveal the degree of sensitivity it has in relation to economic and internal changes. The importance of history lies in the fact that it has a way of laying open the good and bad, the strong and weak points for future references. With the knowledge of a company's history an examination of its present structure can be made while searching for indications as to whether its weaknesses have increased or diminished.

However, an understanding of the past history of an industry will not reveal what capacities it has in the present. The analyst must survey the existing internal structure and external relationships affecting the status of the company. His search will extend to the capabilities of the manage-

ment, the strength of the financial position, the stability of earning power, the condition of plants and equipment and its program of advertising, distribution and selling of products. He should make a special note to watch for problems that are peculiar to certain industries and business enterprises. The study must be exhaustive and comprehensive yet not so involved that a classified conclusion cannot be drawn. In addition the analyst must have an eye on the future. That is, he must measure the prospects for a particular business in the years to come. This one item alone which at times is overlooked can change the situation entirely. This whole appraisal must always be fair illustrating both the good and bad points—a feature that is a rarity in many reviews of the present day.

The process of security analysis cannot be stopped at this point, for we have but a preliminary conclusion. So far we know how well or bad a company is situated. The effect of this conclusion must yet be related to the securities of the company. To presuppose that the market value of a stock is always on a par with the actual conditions existing within a company is folly. It often happens that due to technical conditions or excessive over-evaluation of a stock in the market the company itself would have to grow considerably to measure up to the market value of its own stock. The conditions within a company must be related to the conditions of its own stock on the market in order to have a worthwhile security analyzation. This matching process will bring out that some securities are speculative, others growth issues and still others income issues. Too many of our security analysts do not finish their work. They may decide, for example, that there is a tremendous future to the leading aluminum companies and stop with such a conclusion as if to presuppose that their stocks all have the same characteristics. Thus an excellent preliminary conclusion may terminate into an erroneous final result.

One must consider the relationship of the investor's posi-

tion to the security. Once the investor has determined what blend of income, growth or speculative issues his portfolio will permit, he must compare the features of the security to his needs. This task will involve artistic and laborious features akin to the process of security analyzation. The investor may understand, for example, that his portfolio is in need of several long-term growth issues. He turns to the tabulations of the analyst in search of securities with this description. To purchase a few of these long term growth issues at random on the assumption that they are all the same would be very misleading. Certainly they participate in this one common denominator but there is still the important matter of individual differences. These differences discovered and illustrated in the previous analytical process will cause some investors to sell and others to buy the same security. In these final decisions the work of the security analyst comes to its practical conclusion.

FOR THE YOUNG INVESTOR

The security analyst must support this threefold relationship surrounding the investor in order to throw the proper light on his own work. This relationship presents proof that guesswork has no place in the field of investments. Thus the analyst will detest so-called "Buy, Hold or Switch Lists" published without any regard for portfolio differences. He will understand the weakness in the random labeling of stocks as income, growth or speculative issues without regard to price. He will not encourage wild speculation. He will foster the use of care in selecting investments. In reality the analyst will be promoting the intelligent use of his own findings. Unless security analysts lend their support to such worthy causes the proper use and practical value of their work will be forgotten. Let us accept this challenge in a manner that is commensurate with the important place and necessity of security analyzation.



AIRCRAFT RADIO CORPORATION

Boonton, New Jersey

Dividend No. 100

On March 1, 1958, the Directors of Aircraft Radio Corporation declared a dividend of twenty cents (20c) per share on the common stock of the Company, payable March 26, 1958, to stockholders of record at the close of business March 12, 1958.

HERBERT M. KINGSLAND
Assistant Secretary

We are pleased to announce that

RICHARD B. FANT

(formerly an officer of Savings Banks Trust Co.
supervising the portfolio of
Institutional Investors Mutual Fund)

has been admitted to our firm
and will be the Partner in charge of

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APRIL 1, 1958



DREWRY'S
NEW YORK, N. Y.
TWENTY-SECOND ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 1957



DREWRY'S

LIMITED U.S.A. INC.

REPORTS FOR 1957

COMPARATIVE HIGHLIGHTS

	<u>1957</u>	<u>1956</u>
Barrels sold	1,368,712	1,431,921
Net Sales after Excise Taxes.....	\$26,245,280	\$26,270,578
Income before Taxes.....	2,910,965	2,893,400
Net Income after Taxes.....	1,410,965	1,443,400
Working Capital	3,068,868	2,957,188
Shareholders' Equity	10,468,395	10,025,905
Earnings per Common Share.....	2.33	2.38
Dividends per Common Share.....	1.60	1.60
Book Value Per Common Share.....	17.29	16.56

N E W B R A N D

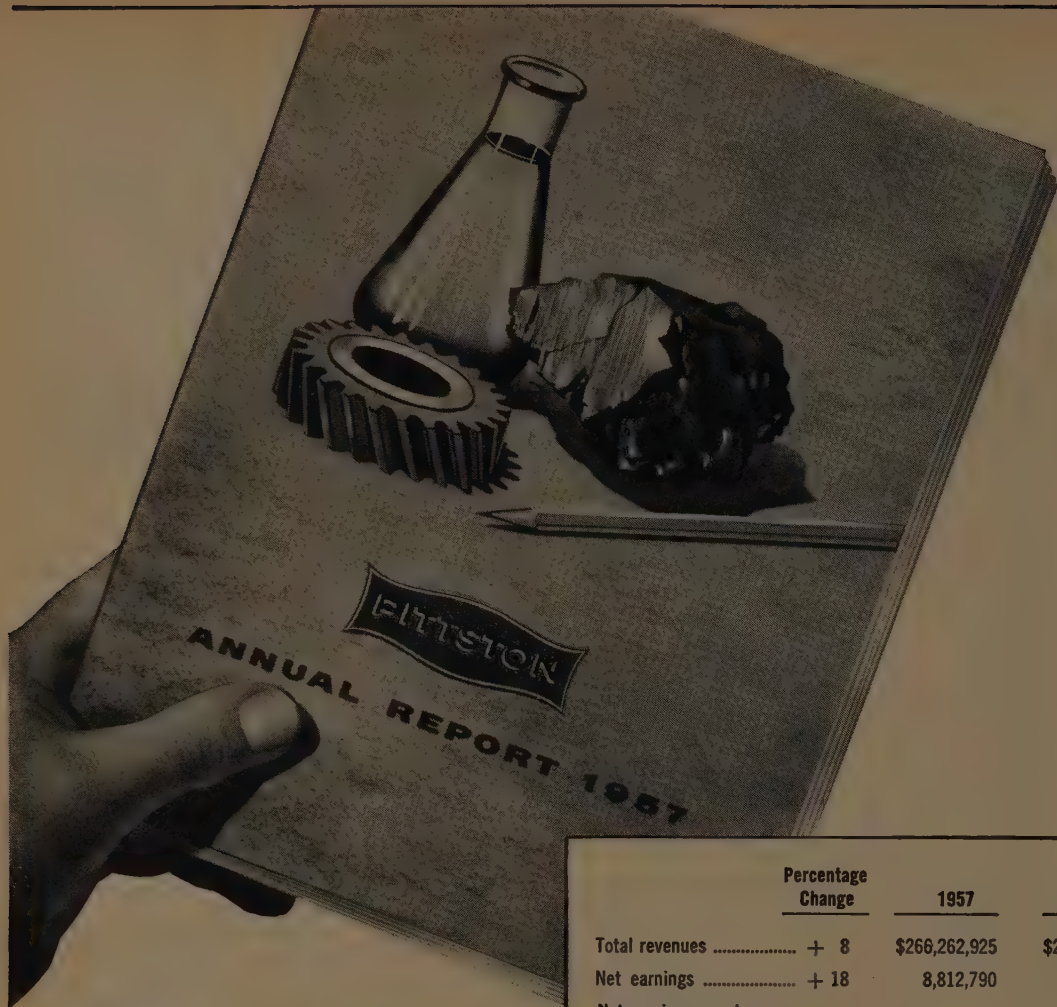
"Friars" is the brand name of a new ale which we introduced during the final quarter of the year. It sells for the same price as our beer. We believe it will be more acceptable to the general public than some of the heavier ales. Thus far its acceptance has been very favorable.



Our 1957 Annual Report, containing a special feature on "Modern Materials Handling" in our South Bend warehouse, and other data about our operations is available on request to the company or our financial public relations counsel, Gartley & Associates, Inc., 68 William Street, New York 5, New York.

DREWRY'S LIMITED U.S.A. INC.

1408 ELWOOD AVENUE, SOUTH BEND 24, INDIANA



Thumbnail sketch of another year of progress



250 PARK AVENUE • NEW YORK 17, N. Y.
COAL • OIL • TRANSPORTATION

	Percentage Change	1957	1956
Total revenues	+ 8	\$266,262,925	\$246,204,246
Net earnings	+ 18	8,812,790	7,438,038
Net earnings per share of common stock	+ 19	7.15	6.02*
Cash dividends	+ 29	2,538,003	1,961,345
Stock dividends	- 17	2,428,244	2,926,980
Depreciation, depletion and amortization	+ 18	5,791,699	4,898,648
AT YEAR END			
Total assets	+ 1	151,866,906	150,059,645
Net current assets	+ 69	33,450,495	19,775,124
Fixed assets (net of reserves)	+ 4	73,955,654	71,029,865
Long term debt	+ 28	51,485,059	40,358,075
Stockholders' equity	+ 12	61,458,296	54,931,550

*Adjusted to give effect to stock dividend paid in 1957.

Clinchfield Coal Company Division, Dante, Va. and Clarksburg, W. Va. • Lillybrook Coal Company, Affinity, W. Va. • Amigo Smokeless Coal Company, Affinity, W. Va. • Metropolitan Petroleum Corporation, New York • Maritime Petroleum Corp., New York • Globe Fuel Products, Inc., Chicago, Ill. • Metropolitan Coal Company, Boston, Mass. • Pittston Clinchfield Coal Sales Corp., New York • Davis-Clinchfield Export Coal Corporation, New York Routh Coal Export Corp., New York • United States Trucking Corporation, New York Baker & Williams, New York • Tankport Terminals, Inc., Jersey City, N. J. • Plattsburg Terminal Corporation, Plattsburg, N. Y. • Pittston Marine Corporation, New York.

Copy of 1957 Annual Report will be sent on request

Some Guides for Appraising the Bond Market

J. EUGENE BANKS

SINCE LAST NOVEMBER the bond market has been providing numerous opportunities for capital gains as well as investment income. To illustrate, the Treasury 3's of 1995 were available at 91 8/32 on the morning of November 15, 1957, which was the day following the announcement of a reduction in the Federal Reserve discount rate. As this is being written (March 14, 1958) these bonds are quoted at 95 16/32. Another example is the American Tel. & Tel. 5's, due 1983, which were in syndicate and moving slowly at the time of the announcement. Offering price for this issue was 101.46, compared to today's price of 109 3/8. The current rising trend of bond prices creates risks as well as opportunities. It may, therefore, be of some interest to examine a few tools which have been helpful in judging this market.

TRENDS OF BOND PRICES AND MONETARY POLICY

Monetary policy and the trend of the bond market, as most of the readers of this article understand, are closely associated. In fact, about all one needs to know in order to gauge trends of bond prices is current monetary policy. Chart I illustrates this point. On the upper part of the chart is a graphic presentation of our estimate of monetary policy. A solid line shows periods of easy money, while dots indicate periods of neutrality, and the slashes indicate times when policy was restrictive and money more or less tight. The various legends, with arrows attached, illustrate action taken by the authorities at the times indicated.

To show the trend of bond prices on this chart, we have used the Treasury 2½'s of September 1972, from 1941 through 1953, and thereafter the longest Treasury bond outstanding. Inverted yields are plotted so that the line on the chart moves like prices. The chart shows that a change in policy toward tighter money, either from easy to neutral or from easy to restrictive, has approximately coincided with the development of upward trends.

COMING POLICY CHANGES ARE EVIDENT

Changes in trend from up to down of early 1946 and late 1949 occurred within a month or two of a tightening monetary policy. The downturn in 1954 preceded the change in policy by some four months, but the price change during the anticipatory period was small. On the other hand, the upturns of late 1948, June 1953, and November 1957 occurred within a month or so of the policy change.

Most of the time policy is crystal clear. Occasionally it may be ambiguous for short periods of time, when there may be room for differences of opinion. But if one keeps an eye on the state of the economy, including the Consumers' Price Index (a measure of inflation) and the level of Unemployed, and the other eye on Net Free Reserves of the Reporting Member Banks (excess reserves minus borrowings from the Reserve Banks), he should not have too much difficulty in appraising policy. Actually, the Reserve

authorities usually tell the public approximately what they are doing. It has been our observation that most of the errors in appraising policy by observers who have expressed their opinions publicly have been due to attempts to anticipate changes in policy.

BONDS WILL WORK HIGHER

Applying the experience of the past to the present, it would seem that one is justified in assuming bond prices will continue to work higher until monetary policy is changed, and monetary policy probably will not be changed until business activity and employment improve.

Selection of values in the high-grade bond market, though perhaps not so important as selection in the stock market, can nevertheless make a significant difference in results. In this connection, yield spread studies are among the useful guides for pointing out underpriced groups and issues. Chart II and Chart III represent examples of such studies, in which Treasury bond yields are used as the standard of comparison.

Chart II shows three Moody's Utility Bond Averages plotted with the Treasury bond yield of comparable maturity. Since average maturity of these Utility Bond Averages is approximately 25 years, their yield must be related to a Treasury yield of 25 years, if an accurate comparison is to be obtained. Usually there is no Treasury bond of exactly 25 years' maturity outstanding, so the yield must be obtained from a yield curve drawn for each month. The Treasury yield represented by Line 1 on the chart is obtained in this way.

Spreads between utility yields and Treasury yields are represented by the heavy black lines in the lower half of the chart and are labeled "Actual Yield Difference." They are plotted so that the lines decline as the spreads widen, and vice versa.

It is desirable to have some benchmarks for assistance in reaching a conclusion as to whether the spreads are relatively wide or narrow at any given time. The broken lines running through the Actual Yield Differences and labeled Normal Yield Difference are intended to serve as such guides. Normal Yield Difference is the spread between the Treasury yield and a calculated or "Normal Yield" for the Bond Averages—calculated from a simple regression equation. The dotted lines are spaced 1½ standard error on either side of the Normal Yield Difference and may be regarded as indicating normal areas of fluctuation of the spreads. The equation for the Aa normal yield is $y = .699 + .8566x$, where y is the Aa Normal Yield and x is the Treasury 25-year yield. The Coefficient of Correlation for this equation = .94 and the standard error = .08.

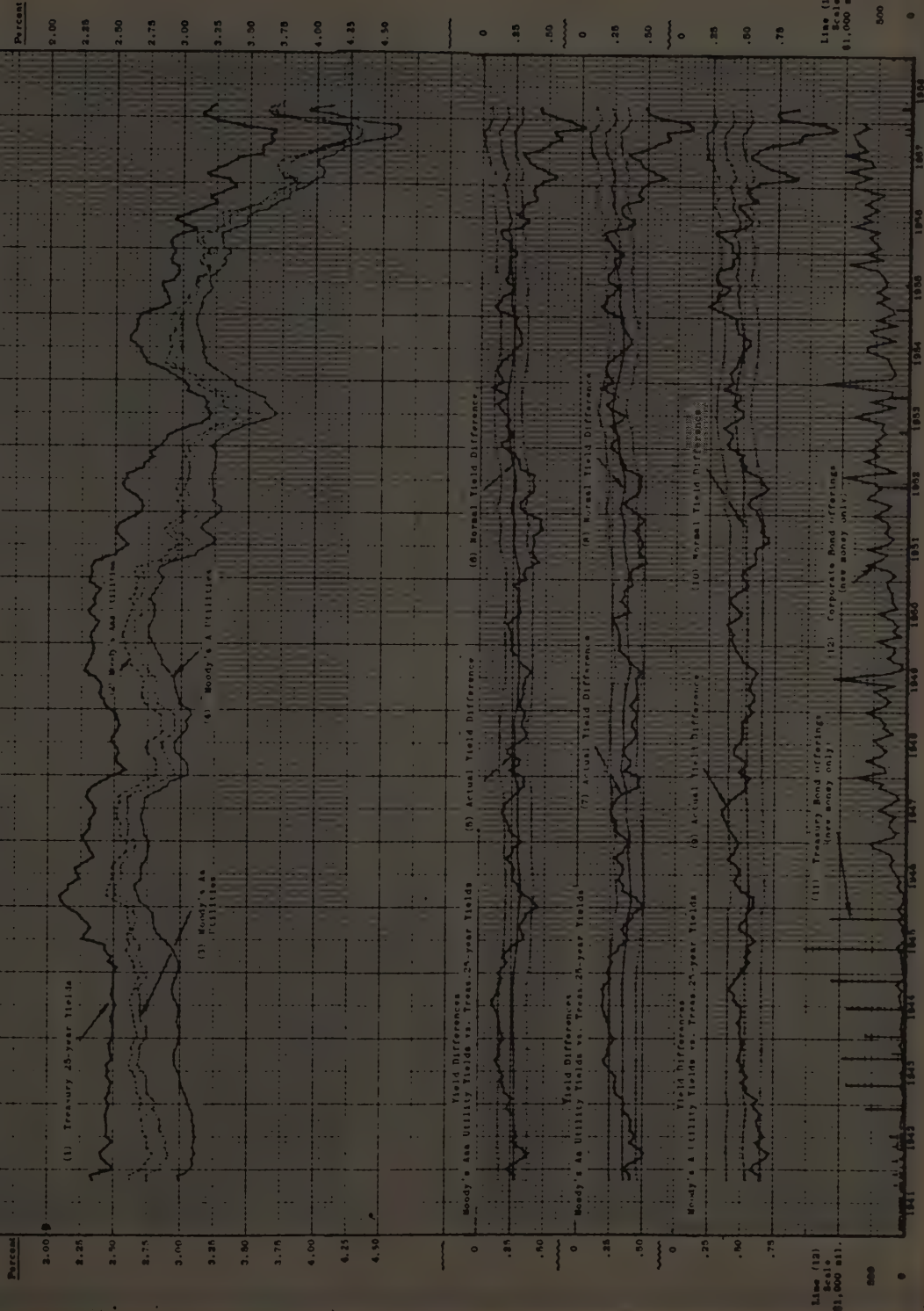
An example will illustrate the method of computation. At the middle of March 1958, the 25-year Treasury yield was 3.24. Substituting in the equation, the Aa Normal

YIELD DIFFERENCES BETWEEN WOODY'S UTILITY BOND AVERAGES AND TREASURY 25-YEAR BOND YIELDS

SHAW-WALKER INVESTMENT MANAGEMENT & CO.

INVESTMENT ADVISORS

PRINCIPAL OFFICE



Line (12)
Scale
\$1,000,000

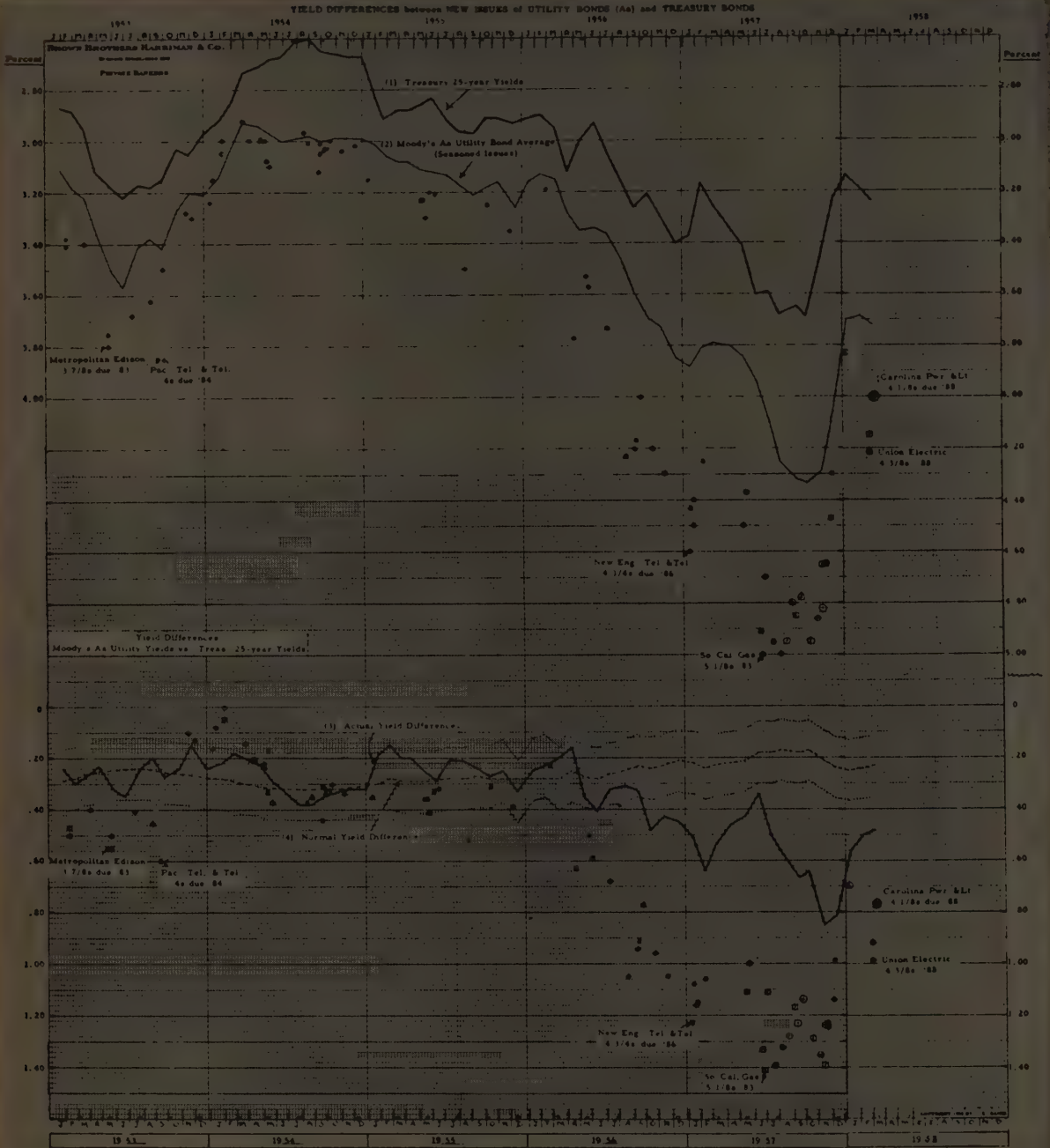
Line (11)
Scale
\$1,000,000

Line (10)
Scale
\$1,000,000

0

0

CHART III



Yield = .699 + (.8566) (3.24) or 3.47. Subtracting the Treasury yield from this Normal Yield gives us .23, which is the Normal Spread. Dotted lines are plotted one and a half standard error, or .12 above and below this spread. It might be added that these regression equations are re-computed every year or so, to prevent them from getting out of date.

UTILITY BONDS

The chart shows that utility bonds have been severely depressed relative to Treasuries, since the fourth quarter of 1956. This situation suggested that utilities were in a position to advance more rapidly than Treasuries when the trend of the bond market changed. As of this writing, the rebound in the Aa Utility Average has carried the yield down approximately 61 basis points, compared with a decline in the Treasury 25-year yield of 45 basis points.

Changes in spreads of new issues are usually more extreme than those of seasoned issues. Chart III illustrates this point. On this chart the Aa Average and yield differences shown on Chart II are reproduced on a larger scale together with the Treasury 25-year yield from 1953. Superimposed are circled dots representing new Aa utility issues which sold relatively successfully. A few are labeled. Dots

in the upper section of the chart represent offering yields (on an inverted scale). Dots in the lower part of the chart indicate the spreads of these new issue yields from Treasury yields of comparable maturity read from a yield curve.

The chart shows the extremely depressed position of the market for new issues during most of 1957, and the vigorous rebound late in the year. Aa new issue yields are currently around 4.00%. This represents a change of about 90 basis points from the level just prior to the change in Federal Reserve policy of last November as compared with the change of 61 basis points for seasoned issues mentioned above.

UTILITY NEW ISSUE PRICES CAN RECOVER

Although new issue Aa utility yields have recently declined (and prices recovered) much more percentage-wise than Treasuries, the yield spread is still abnormally wide. The chart shows that in early 1954 a few new issues actually sold at a lower yield than seasoned issues and both sold at an abnormally narrow spread from Treasuries. If the experience of the 1953-54 bond market recovery is any guide, utility new issue prices could continue to recover relative to Treasuries at least until the spreads are more normal.

ARMOUR AND COMPANY

5% Cumulative Income Subordinated Debentures, Due 1984



Notice is hereby given that ARMOUR AND COMPANY, pursuant to the Indenture under which the above Debentures have been issued, will pay interest on the Debentures as follows:

- May 1, 1958 —\$2.50 per hundred dollars principal amount of Debentures
- November 1, 1958—\$2.50 per hundred dollars principal amount of Debentures, being payment in full of all interest accumulated to the above mentioned dates.

Holders of coupon Debentures should detach Coupon No. 7 on May 1, 1958 and Coupon No. 8 on November 1, 1958 and present them for payment either at the Continental Illinois National Bank and Trust Company of Chicago, 231 South La Salle Street, Chicago 90, Illinois, or the Chase Manhattan Bank, Agency Coupon Paying Department, 37 Wall Street, New York 15, New York. The Trustee, City National Bank and Trust Company of Chicago, will mail checks for the interest payable on Debentures not in coupon form.

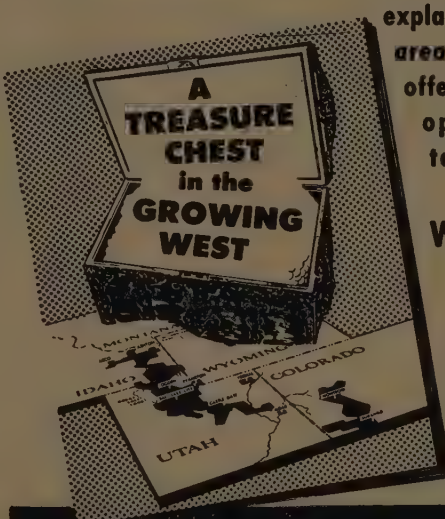
ARMOUR AND COMPANY

By: F. A. Becker

February 24, 1958

Vice President and Treasurer

AREA RESOURCES BOOK



explains why the area we serve offers so much opportunity to industry.

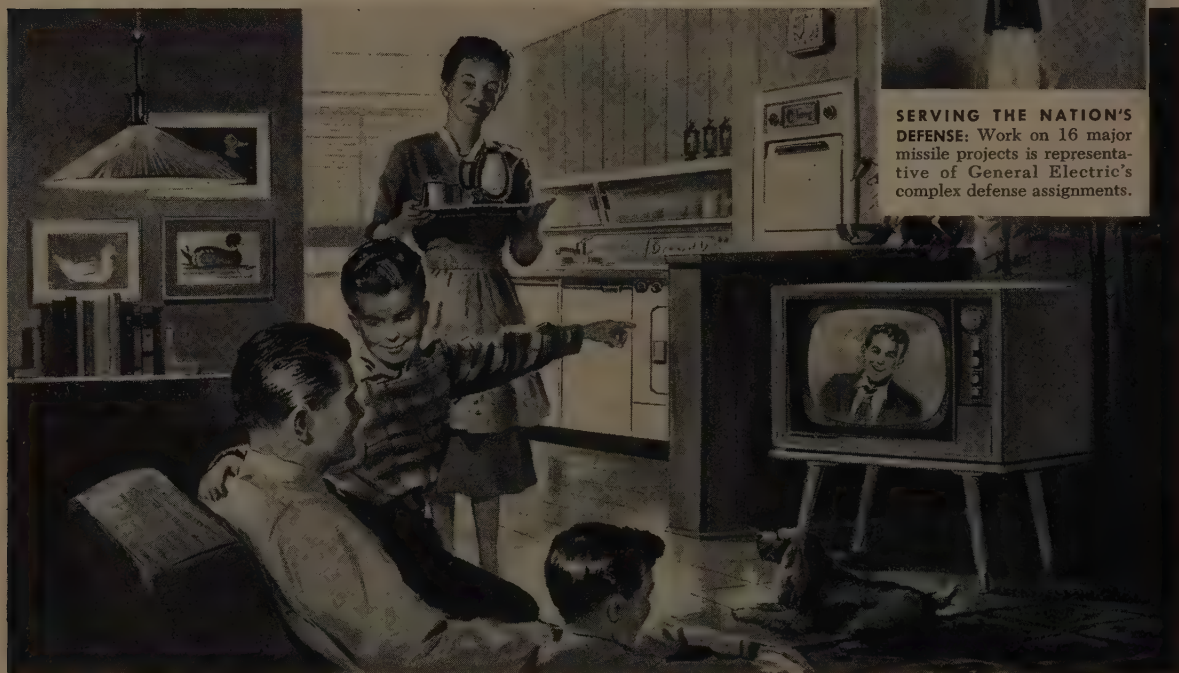
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new breakthroughs in research and development . . .

Highlights of a year of progress at General Electric



**SERVING THE NATION'S
DEFENSE:** Work on 16 major
missile projects is representa-
tive of General Electric's
complex defense assignments.

ADVANCING THE NATION'S WELFARE: General Electric introduced new products for the home to help people Live Better Electrically.

SALES UP 6%. Despite the nation's economic uncertainties in the latter part of the year, General Electric's 1957 sales reached a record \$4.3 billion. This year's annual report gives the approximate percentages of sales in four broad classifications of products: heavy apparatus—26%; industrial components and materials—27%; consumer goods—27%; defense-product departments—20%.

EARNINGS ROSE 16%. General Electric earnings for the year established a new high of \$247.9 million. This was equivalent to \$2.84 a share—16% higher than in 1956. As a per cent of the sales dollar, earnings rose from 5.2 in 1956 to 5.7 in 1957.

59TH CONSECUTIVE YEAR OF DIVIDENDS. The \$2.00 a share paid in 1957 was 70% of net earnings for the year, as compared with an average of 66% since 1899.

BREAKTHROUGHS IN RESEARCH AND DEVELOPMENT. 1957 saw the first commercial production of man-made industrial diamonds. General Electric scientists and engineers created borazon, another new diamond-

hard material with superior heat resistance. Major advances were also made in the fields of metallurgy and magnets, in new plastics that may replace metals, in converting heat directly into electricity, and in the study of power from atomic fusion. Power reactor license #1 was granted to General Electric by the AEC for operation of the atomic power plant at the company's Vallecitos Atomic Laboratory.

FOR DETAILS OF THESE AND OTHER AREAS OF PROGRESS, send for your free copy of the Annual Report; write General Electric, Dept. B2-111, Schenectady, New York. If you own General Electric shares held in the name of a broker, or in the nominee name of a bank or trust company, write to Dept. P2-111, and we will mail you regularly our share owners' publications.

Progress Is Our Most Important Product

GENERAL  ELECTRIC

Stock Rights Make Sense

CREIGHTON HARTILL

DURING RECENT YEARS external sources have played an increasingly important role in the creation of equity capital. In 1947 common share offerings totaled \$779 million, in 1952 \$1.4 billion; last year they were \$2.5 billion. Their size in absolute terms has tripled and their proportionate position in corporate financing doubled in the past decade. It appears likely that this sharply rising trend will further accelerate. The New York Stock Exchange estimates the equity financing requirements of American corporations over the next seven years at \$7 billion annually, more than two and a half times recent levels. Such a figure is a goal, not a forecast, but it does indicate an expected dynamic upward trend.

Techniques of equity finance have a vital impact upon the moral and legal rights of shareholders, the relative attractiveness of the issue concerned, and upon its costs. Until recently little tabular information about these factors was available. In December 1957 the Industrial Securities Committee of the Investment Bankers Association of America issued a comprehensive report on equity financing which analyzes all public common share issues in excess of \$5 million during the period January 1, 1956, to November 8, 1957. The data it contains make possible a statistical approach to a problem of growing importance to corporate executives, investment bankers, shareholders, and all others concerned with the effective functioning of our free enterprise economy.

"CASH" OFFERINGS

Direct offering of common shares to the investing public is a simple and on the surface an appealing means of securing additional equity capital. Called in underwriting parlance the "cash" offering, it is fundamentally an extension to the new issue market of the technique long employed to distribute large stocks of existing securities; namely, the formation of an investment banking group whose customers have in the aggregate at least sufficient and ideally somewhat more than the purchasing power required to absorb the offering. This, however, is an undertaking considerably more complex than it at first appears.

Cash offerings, although announced well in advance in accordance with S. E. C. registration requirements, can be rapidly priced and timed to take maximum advantage of favorable market conditions. The successful cash offering generally takes less than twenty-four hours from pricing to completion. As a result these issues can be priced at a figure which is, in effect, the current market price for an offering of that particular size.

Offerings of additional common shares to a corporation's existing shareholders are known to underwriters as "rights" issues. The shareholder is issued warrants to subscribe for the new shares in proportion to his present holdings. Thus a one for ten "rights" issue entitles the shareholder to subscribe at the subscription price and during the subscription

period for one new share in relation to each ten held. If he does not desire to subscribe he may sell his rights, or if he wishes to subscribe to more than his proportionate share he may purchase rights in the market. Moreover, the shareholder is given a reasonable period of time to decide which of these alternatives and to what extent he should select.

In the case of the cash offering the casual shareholder may never know of the issue until he reads the next annual report, if he does this. In the case of rights issues some action must be taken to avoid loss. Thus rights issues have one undeniable disadvantage in this "age of convenience," they require thought on the part of all concerned. Analyzed carefully, however, rights issues are not so complex as they first appear. More important, in the case of most issues they possess significant advantages as compared with cash offerings for both the corporation and the shareholder.

RIGHTS ISSUES

A modification of straight rights issues, that is those in which the underwriters must wait until the expiration of the subscription period before taking up any unsubscribed shares, has occurred in recent years through development of the "lay off" technique. Under regulations of the S. E. C. the underwriters may effect purchases of rights in the market during the subscription period. These are then exercised and the shares thus obtained "laid off" or sold to the public in exactly the manner of a cash offering. As a result an allowance can be made during the subscription period against the pressure of rights sales in declining markets. This substantially reduces the underwriting risk and therefore the cost to the issuer.

Rights issues, which now contain lay-off provisions, are currently the more popular method of common share financing. Of the 46 issues reviewed in the IBA Report, 29, or 63%, were effected through rights. The largest rights issue, \$288 million, was more than eight times the size of the largest cash offering during this period. One half of the cash offerings were for less than \$10 million, while only one-third of the rights issues were in this category. From two viewpoints the popularity of rights issues is justified.

With regard to the shareholder, rights issues offer three important advantages not characteristic of cash offerings. First and foremost, they recognize the moral claim of the existing shareholder. He has directly, or indirectly through purchase of a predecessor's holdings, provided the capital which has enabled the business to get established and to attain its present level of operations. If he is a long-range investor, and it is surely desirable to encourage this class of shareholder, he has known the risks as well as the rewards of equity ownership. A great deal of lip service is paid to the partnership concept of corporate organization. Rights issues are a concrete recognition of the fact that shareholders as "partners" in the business have the right

to contribute the additional capital required if they desire to do so.

Advocates of cash offerings make the claim that this right is largely theoretical in value as it forces the shareholder to contribute additional capital or to accept an equity dilution greater than that of a cash offering, whether or not he has the funds and inclination to subscribe. This argument presupposes that it is generally not in the interest of shareholders to agree with the timing of the corporation's executives. If correct it also applies to a lesser degree to cash offerings. If not correct, and the economic history of our country and of leading corporations suggests that it is not, then the right to contribute additional capital to the business is of considerable value. Capital requirements are a prime responsibility of corporate management, and the fact that a company is issuing additional shares is evidence that at least in its opinion the funds can be profitably employed. The rights procedure assures an equitable distribution of these prospective profits among the existing owners of the business.

RIGHTS PRIVILEGE

Cash offering advocates further argue that the rights privilege is unimportant to shareholders because they may at their option increase their investment through purchases in the open market. This may be true in the case of the relatively small individual. It is not true with respect to the substantial individual or the investment trusts. In these cases the "thinness" of present markets precludes any sizeable purchases without significant effect upon the price. For example, the holdings of Massachusetts Investors Trust in General Motors Corporation exceed the current monthly volume in this actively traded issue. It is obvious that M.I.T. could not readily duplicate in the market, without a sharp price run up, the one-for-twenty acquisition opportunity which occurred when G.M. last issued rights to shareholders in May, 1955. The president of another leading investment company stated recently: "We definitely prefer rights issues because they provide assurance that at least a proportionate amount of the new issue is available to us."

Second, rights issues offer each shareholder the legal privilege of maintaining his proportionate voice in the affairs of the corporation. Once this was considered one of the most important aspects of corporate ownership, and the pre-emptive privileges embodied in the laws of most states were inspired by legal as well as by moral considerations. For some time as share ownership became increasingly wide spread the voting privilege was regarded as of only academic value, and the motto of the financial community became: "If you don't like what's going on, sell out." Recently, however, the question has come full cycle. The battles for control which have occurred over the past few years in so many corporations amply demonstrate that the voting privilege of even the relatively small shareholder, exercised or not, is of at least considerable potential importance. To the extent that existing shareholders are not offered, or are, as in many instances, unable to accept the terms of a cash sale this right is thus diluted.

Third, rights issues afford the individual shareholder a substantial financial advantage in comparison with the cash procedure. Under present regulations of the Federal Re-

serve Board rights issues may be subscribed for on the basis of a 25% margin, while all other loans made for the purpose of purchasing listed securities currently require a 50% margin. Thus the shareholder in the corporation which maintains the rights privilege has, apart from whatever funds of his own are already available, twice the additional purchasing power of the shareholder in the corporation which does not. All other factors being equal, he is in a far better position financially to take advantage of this investment opportunity even though he may lack the funds to subscribe entirely on a cash basis. Moreover, there is far less pressure upon him than in the case of a cash offering to liquidate some other commitment, perhaps at a disadvantageous time, in order to obtain the cash required. To this degree rights issues and subscription accounts benefit the entire equity capital market.

Cash offering advocates assert that subscription accounts are a "loophole" in the margin regulations, that they encourage irresponsible purchasing of rights issues, and that as a result in declining markets the price behavior of rights issues is likely to be considerably worse than that of cash offerings. Data based upon the IBA report refute this contention. The author has calculated the price history of each of these 46 issues from prospectus date through December 31, 1957. The average price decline of the 29 rights issues was 27.2%, while the average price decline of the 17 cash offerings was 24.7%. These figures do not allow for the value of rights, representing the difference between subscription price and market price, which shareholders in the former group received. As the average value of rights was equal to 2.2% of the market price per share on the prospectus date, the results are for all practical purposes identical.

EQUITABLE RIGHTS OFFER ADVANTAGES

From the viewpoint of corporate directors seeking a financing technique which is both successful and equitable rights issues offer five major advantages over the cash method. First, they recognize the fact that existing shareholders are the most logical source of additional equity capital. They, or their financial advisors, comprise that part of the investment community already familiar with the nature, the history and the objectives of the issuer. Moreover, the fact that this group has the conviction to have purchased and maintained an interest in the corporation is presumptive evidence of a firm belief in its future. To this degree a substantial part of the sales effort required in any financing has already been accomplished. Several years ago there were far fewer publicly owned corporations, and the base of equity ownership was relatively narrow. As a result it was possible for the alert investor to follow the affairs of at least the leading corporations in the various major lines of economic activity. Today, however, there are over 1,200 issues on the New York Stock Exchange alone, and thousands more enjoy an active regional exchange or unlisted market. Effective communication has become a dominant problem of the investment community. Rights issues, because they most fully tap the potential of a "presold" market, are a technique of increasing value in an age of economic complexity and diversity.

Second, it is mechanically simple for a corporation,

through its fiscal agents, to communicate the terms of a rights issue to its shareholders, to handle subscriptions and the "rounding out" of fractional interests, and to receive the funds created by these transactions. A great deal of emphasis has been placed by advocates of cash offerings on the "simplicity" of cash transactions. The implication is given that the mechanical details of rights-transactions impose a much greater work load upon the staff of the issuer. Unfortunately, this impression is reinforced in the minds of laymen and of corporate executives unfamiliar with the investment banking business by photographs and articles on the mechanics of rights. In actuality, the rights issue is no more complicated from the corporation's viewpoint than the cash offering. There are several major banks and trust companies fully equipped to handle all the mechanical details of a rights issue easily and inexpensively, so that from a corporate viewpoint the mechanics of a rights issue are identical with those of a cash offering.

By contrast, the mechanics of a cash offering are far more complex than they first appear. The burden of contacting and convincing prospective investors, which is borne by the managing underwriter and his associates, is considerably greater than that in the rights issue, where only the problem of unsubscribed shares need be considered. Every share of every cash offering must be sold to someone by the underwriters, while in the case of the rights issues contained in the IBA report on the average only one-fifth of the shares required this sales effort.

Third, rights issues more effectively assure the continuance in a corporation of an informed group of shareholders, and they appeal to this class of investor. To the extent that these issues are subscribed for by existing shareholders they relieve management of a burdensome and expensive educational assignment undertaken today by many progressive corporations on behalf of new owners. Of course, a large part of cash offerings also find their way into the hands of existing shareholders, but there is evidence that the percentage is not nearly so high. For example, the investment company manager previously cited heads an organization with assets exceeding \$600 million, and which has intimate daily contact with the financial community. If his organization is unable always to secure its proportionate share of cash offerings, the position of the moderate sized or small shareholder, with perhaps little or no contact with the investment business, appears relatively far worse. In these times of declining profit margins, lower earnings, and dividend reductions and omissions, informed and understanding shareholders are especially important to every corporation.

A recent survey of five major investment companies reveals some interesting results with respect to their actions

concerning rights issues. I.B.M. and Standard Oil of New Jersey were selected as representative examples. In both cases three exercised and two sold their rights. However, the assets of subscribing companies total \$1.9 billion, three times those of the sellers. It is possible that a wider survey would reach a different conclusion, but this evidence does support a conviction that many substantial and knowledgeable investors definitely favor rights issues.

Fourth, from an over-all standpoint, especially when the dollar amounts involved are very large, rights offerings are, generally speaking, less likely of failure than comparably sized cash issues. Not only is the selling effort less, but the risk during the period of the rights offering is reduced by establishing a subscription price realistically below the quoted market in recognition of the fact that quotations on small transactions are not representative of levels at which large blocks could be sold. Further, the "lay-off" technique permits shares not taken up by shareholders to be distributed, frequently in relatively small amounts, throughout the subscription period. By contrast, the cash offering immediately creates a large balance overhanging the market irrespective of the fact that conditions on the marketing date may deteriorate during the course of the day, necessitating a carry-over until a more favorable sales climate develops.

Fifth, but hardly least important, underwriting costs of rights issues are substantially lower than those of cash offerings. As a result of the comparatively greater risks involved, and the sales efforts required, the cash offerings contained in the IBA report had an average underwriting cost to the corporation of 5.56% of the offering price, compared with 2.62% for the rights issues. Far more graphically than words these figures belie the "simplicity" of the cash offering. They suggest the latter are considerably more difficult.

ADVANTAGES OF RIGHTS

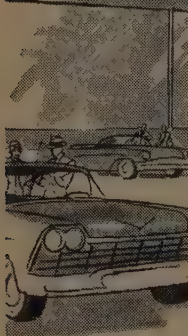
From the viewpoint of both the shareholder and the corporation rights issues still appear to possess the tangible and intangible advantages which lead to their adoption, and which account for their continued popularity. In cases of closely held corporations, offering shares to the public for the first time, frequently in combination with an offering by shareholders, the advantages of rights issues are not applicable. They have been and will continue to be intelligent and desirable users of the cash offering technique. Pre-emptive rights of shareholders in such companies may readily be waived for purposes of an initial public issue and then restored. But for major corporations enjoying a reasonably broad distribution of ownership rights are an advantageous method of obtaining additional equity capital. In short, stock rights make sense.

■ ■ *

Many people presume that the value of a right is given directly by dividing the difference between the subscription and the market price by the ratio. This is incorrect, because it should be remembered that the reduced subscription price of the new stock is going to act as a dilution of the value of the premium on the old shares.—*Arthur Stone Dewing.*

CREDIT

packaged for action!

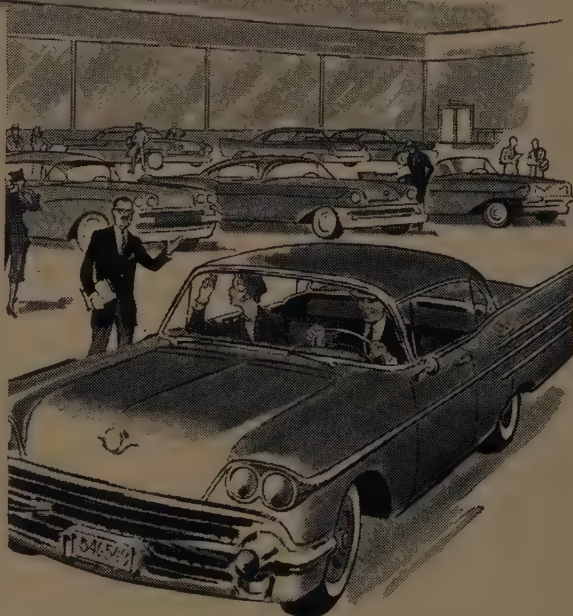


1958 can be one of America's best years—if we back it with confidence and action! Credit plays a vital role in maintaining this confidence, and promoting business activity. It has helped to bring America's standard of living to unmatched heights, by supplying the power to move goods and provide services.

To create fast buying action, credit has to be readily available. Associates specializes in putting credit in suitable packages for the convenient buying of automobiles... thus giving the dealer a proven selling aid in moving his cars.

Last year Associates provided over 1¼ billion dollars for the retail and wholesale financing of automobiles. In addition to its key role in automobile financing, each year Associates furnishes millions of dollars to American industry... and to individuals for family needs.

Again throughout 1958 Associates is continuing its significant service to our dynamic economy—making available its ample financial resources to facilitate the uninterrupted movement of automotive and other products.



ASSOCIATES 1957 FINANCIAL REPORT

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	Dec. 31, 1957	Dec. 31, 1956
CASH AND MARKETABLE SECURITIES..	\$ 90,379,297	\$ 90,150,167
RECEIVABLES:		
• Retail motor vehicle installment receivables.....	\$711,007,982	\$700,367,608
Wholesale motor vehicle short-term loans.....	109,199,276	72,102,682
Direct and personal installment loans.....	75,048,989	62,836,287
Commercial and other receivables.....	48,888,754	40,278,730
	\$944,145,001	\$875,585,307
Less: Unearned discounts.....	58,242,489	54,429,155
Reserve for losses.....	22,717,549	22,314,277
Total receivables, net.....	\$863,184,963	\$798,841,875
OTHER ASSETS.....	24,372,863	16,038,965
	\$977,937,123	\$905,031,007

LIABILITIES

	Dec. 31, 1957	Dec. 31, 1956
NOTES PAYABLE, short-term.....	\$410,355,800	\$436,556,800
TERM NOTES due within one year...	38,968,000	28,021,000
COMMON STOCK Dividend payable January 2, 1958.....	2,086,807	2,031,557
ACCOUNTS PAYABLE, ACCRUALS AND RESERVES.....	36,046,112	37,481,065
UNEARNED INSURANCE PREMIUMS...	28,194,731	29,227,061
LONG-TERM NOTES.....	243,964,000	182,300,000
SUBORDINATED LONG-TERM NOTES..	80,034,000	65,600,000
PREFERRED STOCK.....	20,250,000	22,500,000
COMMON STOCK.....	32,104,720	31,254,720
SURPLUS.....	85,932,953	70,058,804
	\$977,937,123	\$905,031,007

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Year Ended	
	Dec. 31, 1957	Dec. 31, 1956
Discount, interest, premiums and other income.....	\$132,473,577	\$122,457,993
Operating expenses.....	96,397,124	88,919,887
Net income before Federal income tax	\$ 36,076,453	\$ 35,538,296
Provision for Federal income tax.....	15,545,000	16,030,000
Net income.....	\$ 20,531,453	\$19,508,296
Consolidated net earnings per share of common stock after payment of preferred dividends.....	\$6.11	\$5.93



ASSOCIATES INVESTMENT COMPANY
ASSOCIATES DISCOUNT CORPORATION
and Other Subsidiaries
HOME OFFICE • SOUTH BEND, INDIANA

Tight Money—A Complete Look

ROBERT FRANKLIN

THE AUGUST EDITION OF THE ANALYSTS JOURNAL contained an article entitled, "Tight Money: Deflationary or Inflationary," written by Harold Ehrlich. His argument, in brief, was that monetary measures can not control inflation, and that they do produce unexpected ill effects; and that therefore new means must be found to control inflation. The new means were indicated to be complete and direct lending controls, price regulations, and fiscal policy. Mr. Ehrlich should be commended for his recognition of the economic problem, inflation, and for his scientific attitude that new ideas may improve our social institutions. That must be the end of commendation, because his argument is founded on erroneous concept of present monetary measures and a misunderstanding of the nature of inflation.

MONETARY MEASURES CAN CONTROL INFLATION

An understanding of inflation and present monetary measures will prove that monetary measures can be effective in contributing to the control of inflation, and that the measures can be improved without resort to total lending dictatorship. Price control and total lending controls are effective in the stultifying manner that a mother's gagging a baby stops crying. These actions do not get at the causes and they therefore must be intensified until a free market economy, and the baby, die.

In this short paper the nature and causes of inflation will be outlined, the current monetary policy will be appraised, and a general indication of improvement will be offered.

SOME CAUSES OF INFLATION

What are the nature and causes of inflation? When the people in a money economy become extremely optimistic, their activities result in full employment of the factors of production and full utilization of commodities and resources. During such a condition, the price level will rise if aggregate money demand is greater than aggregate supply of goods at the existing price level. The other cause of a price level rise is monopoly, either in the factor market or in the commodity market. This latter cause can result in price increases even in the face of less than full employment and insufficient money demand. There are then, two general types of price increases: (1) One the result of free market forces, and (2) the other the result of monopoly. In our dynamic and complex economy, the two general types participate in a spiral of cause and effect, but inflation is characterized by a rising price level and full employment. There are some fundamental forces in our society which underlie inflation.

1. Growth oriented, material desiring, and scientifically inclined humans that make up our society.
2. Population growth.
3. The Cold War.

4. Strong unions and large corporations.
5. Government welfare programs.

These social and political forces, not necessarily all inclusive, and their interreactions are reflected in price increased through the two direct causes, i.e., excess money demand and monopoly pressure. They also are reflected in full employment. The increasing price level weakens the social institution of money, which is a standard and a store of value. The continuation of this results in serious social and political disintegration. The complete destruction of money would more than likely compel the replacement of capitalism by a directed economy.

If that is the problem, what is monetary policy as presently constituted, and how does it deal with this problem? This is a problem in itself. Even among the experts and policy makers there is confusion about monetary policy. Some statements by economists, Chairman Martin and other responsible officials would lead one to believe monetary policy is some magic cure-all. It will insure economic growth and a stable price level. It will eliminate economic waste, unhealthy expansion and bad lending practices. It controls credit, i.e., lending.

Monetary policy as presently constituted, or as might be devised is not a magic panacea. Monetary policy, in general, is a program designed to promote orderly economic growth and a stable price level through actions by the Federal Reserve System within a free market economy. More specifically, monetary policy is the regulation of aggregate money demand, spending, by controlling the money supply and by influencing the cost of money (interest). During inflation, spending is denied stimulation from bank-created money, and during deflation spending is stimulated by creating money. This program is not the control of all lending, nor the regulation of real investment. Lending is mostly a financial process which transfers savings. Real investment is the employment of resources for capital production. The direct control of these free market activities is not a function of monetary policy, nor need it be. Monetary policy should be concerned with instability in economic activity resulting from money hoarding (non-spending), or money creation (non-productive originating demand), and the price level changes that result from these actions.

Monetary policy's worry about real investment should not be with the possibility of its being too much in a boom, but that bank or government created money can bid up the price of resources in a boom. In the same vein, monetary policy can not be expected to solve social problems nor allocate resources in place of the free markets. The injection of social problems, and other economic problems into the discussion of monetary policy has, and can only lead to confusion and false policy. For example: During a boom, the big automobile companies can bid higher than school

districts for scarce savings which represent command of resources not employed in consumption. The answer does not lie in providing government created money for schools at a time when correct monetary policy requires restraining money demand. The example proves that Americans want car factories more than schools. Let us face this problem in values in order to avoid the destruction of our money institution in the attempt to have both automobile factories and schools. Another example is the economic problem of small business. As a study by the Federal Reserve points out, a capital market to serve small business is almost non-existent. The present income tax laws are so high that one historical source of capital for small business, individual savings, is inadequate. Naturally at a time of strain on total savings, this business sector's plight is magnified. This economic problem cannot be solved by creating money in a boom.

The implementation of monetary policy presents important unanswered questions of effectiveness and possible improvement. The Federal Reserve advises more research in addition to the research now being conducted. It has always recognized the need for the coordination of monetary and fiscal policy.

MEASURES OF MONETARY CONTROL

At the present time monetary policy is implemented by the following measures:

1. The Rediscount rate changes. This rate is the price that member banks must pay to the Federal Reserve for reserves.
2. Open market activity. This is the buying or selling of investment securities by the FRS to increase or decrease the money supply.
3. Reserve requirement ratio changes. This ratio is the per cent of member bank deposits that must be held as reserves at FRS banks. Increasing or decreasing the ratio will respectively decrease or increase the extent of member bank deposit creation. If the reserve ratio is 20%, then member banks, as a group, can have 5 dollars of deposits for every dollar of Federal Reserve money then on deposit with the Federal Reserve. If the ratio is changed to 10%, then the member banks, as a group, can expand their deposits to \$10 dollars for each dollar held at the Federal Reserve Banks.

The next question, is how do these measures control inflation, or in the words of monetary policy's aim, how do these measures promote a stable price level?

The rediscount rate can be increased. This will tend to make banks charge a higher interest rate and to influence all interest rates if the demand for loanable funds is great in relation to saving flows in the economy and bank credit. Empirical studies indicate that such a measure does not effectively limit money demand. Businessmen and consumers are not dissuaded from borrowing by higher interest rates. A fact especially true during booms, when expectations are high and speculation is extensive.

The other two measures can force a contraction in the money supply or prevent an expansion of the money supply. This can affect both causes of inflation, i.e., excess

money demand and monopoly pressure. The control of the money supply has a direct effect upon excess money demand by denying optimistic would-be-borrowers the bank created money to bid up the price of scarce products or resources. The affect upon monopoly pressure is indirect. Monopoly pressure results in a higher price level which requires an increase in the money supply to sustain it. If the FRS does not increase the money supply, production will be forced into a decline which will in turn reduce employment. The resultant recession would stimulate business resistance to cost increases and dampen monopoly enthusiasm for applying pressure.

The Federal Reserve can be effective, but for the following facts and reasons it has not prevented a rising price level in 1955-57.

1. The Federal Reserve does not know enough about its controls. When to apply pressure and how much are decisions based upon calculated guesses. It is probably because of this that the FRS has relied upon its weak tool, the discount rate, which has been increased repeatedly. Open market sales have kept the banking system in a tight position indicated by the negative free reserves, but the total amount of seasonally adjusted reserves have increased throughout the period. Reserve requirements were not changed.
2. Bank lending is only indirectly controlled through the control of total deposits. If the FRS prevents deposit expansion, it does not necessarily prevent excess demand in the economy developing from bank lending. The part of bank deposits that had been created in the purchase of investment securities can be used for loans if the banking system can sell their investments to owners of idle bank deposits, or savers in the flow of money from production. In addition, the Treasury can redeem securities. For these reasons the present monetary measures that control bank lending are not tight controls.

VELOCITY INCREASES

The process of shifting securities to owners of idle bank deposits which results in the spending of those deposits is usually referred to as a velocity increase or an increase in the turnover of money.

The shift is assisted by the high interest rates during a boom which develop from the heavy demand for money in the free markets. Holding idle deposits becomes undesirable as short term interest rates increase. In a boom, owners of idle deposits also spend them directly for consumer and producers goods. This activation of idle money, or increase in the "velocity" of money, is a logical reaction to a boom and to a "tight money" policy and it neutralizes "tight money."

The tremendous amount of short term Governments aggravates this situation by providing a very liquid asset to sell to holders of idle deposits. In the 1955-57 period, the "easy money" policy of the 1954 recession served to further neutralize money restraint through "velocity" increases. Reserve requirements were lowered in 1954 and the banking system invested the subsequently created deposits primarily in short term Governments.

"Velocity" increases in 1955-57 could have been restricted by increasing reserve requirements, but that action could also have had too depressing an effect. The solution to the "velocity" problem more probably lies in refined regulation of bank deposit creation.

3. Fiscal policy and debt management offset the FRS anti-inflation program in the 1955-57 period. In its dealings with the private economy, the United States Treasury had a cash surplus, but that is only anti-inflationary if the surplus cash is hoarded.

TREASURY FINANCING

The Treasury used the funds to retire debt. This amounts to the Treasury taxing funds from people, who might save it or keep some in cash balances, and paying it out to people (banks) who are employing the funds in the most inflated sectors of our economy. The Treasury also refinanced most of their maturing debt in the form of short term notes. This practice saved some money, but it also facilitated the holding of reserves in Treasury notes, and made cash reserves less necessary in the private sector of economy.

Well publicized statements attacking the FRS by high officials in Washington, in 1956, did not help the FRS to courageously hold the line on money expansion.

4. Considering the drastic requirements (unemployment and production cuts) that are necessary before monetary restrictions directly affect the monopoly cause of inflation, monetary measures can not be effective in this area of the problem. The requirements to make them effective in this area were certainly not present in 1955-57.

The facts and reasons show that monetary measures can be offset by fiscal policy and that a discretionary authority can apply too little control in boom and too much in a recession.

It can thus be seen that these measures do not furnish an economic cure-all. The 1955-57 history does not prove monetary controls to be ineffective. The recent history demonstrates that control on money creation will at least limit price inflation. The first two post-war periods of inflation, 1945-48 and 1950-51, had much more price inflation and much more creation than 1955-57. In the latter period, the inflationary forces were so strong that any additional money creation by banks would have pushed prices up much faster than they did go. In history, from the Roman Empire to pre-war Germany, hyperinflation has been precipitated by an expanding money supply.

Before indicating the improvement needed to increase the control of inflation, a look at Mr. Ehrlich's suggested remedies can be profitable.

FISCAL POLICY PLUS A SENSIBLE MONETARY POLICY

Fiscal policy can not prevent inflation. In coordination with a sensible monetary policy it can be significantly helpful. Basically, fiscal policy involves taxation, Government expenditures and debt management. Aside from a lack of flexibility, fiscal policy should be concerned with programs designed to provide necessary tasks in our society. These tasks education, external protection, social welfare and

others should be undertaken only on their merit, not to provide a solution to monetary problems. It is impossible to prove that any worthwhile public program could be planned efficiently to fit the business cycle. In addition, cutting expenditures in a boom will control inflation only to the extent that excess tax money is hoarded or that any tax cuts or debt redemption places money in the hands of those who will save to some degree.

The only assured program of action is to hoard money; that will eliminate excess money demand, but it will affect monopoly inflation only as it forces unemployment and a production decline. More importantly, no tax or expenditure plan will control inflation, if the money supply is not regulated.

Total lending and credit controls would not prevent inflation, but would destroy our free money market. If the Federal Government regulated all credit, it would also determine a great deal of real investment. That is worse than inflation! Even with that power, if the bank created money supply were not controlled any more than it was in 1955-57, there would still be inflation. Lending regulations could not control monopoly inflation.

The last suggestion of Mr. Ehrlich is that of Professor J. K. Galbraith's price freezes. This program would attempt to avert monopoly labor-induced inflation by preventing the initial victim's passing of the cost increases. As in the case of the above two suggestions this one would also require the assistance of general money restriction. This attempt to stifle monopoly inflation would induce more industrial strife, at best, cause a slowing down of this type of inflation, and very probably, lead to more drastic price-wage regulations. The latter outcome would essentially transform our economy into a planned economy.

THE BEST SOLUTION

The improvement of existing methods and policy within our free market economy offers the best solution to inflation. Only a rough direction can be indicated for consideration in so short an article as this is. In the first place, the solution of inflation has not been developed; therefore economic and social research is necessary. Significant improvement in the area of excess demand is possible at the present time. This is fundamentally a money problem. It could be reasonably controlled if the following steps were taken: (1) rationalize Federal control by establishing one agency to exercise the monetary powers of the Government; (2) operate the agency by rules, not discretionary actions; (3) control bank-created money directly, not through total deposits as is the present system; (4) explicit recognition in legislation of the effort to control inflation. What we have today is: (1) no clear denunciation of inflation; (2) the FRS being off-set by the Treasury, FHA and other agencies; (3) the FRS guessing when to take action, and every businessman trying to outguess the FRS; (4) banks making loans like sensible businessmen while the FRS talks to them, as if they were school girls, about credit abuses.

RESULTS OF THE RECOGNITION OF INFLATION

The control of the monopoly inflation is much more difficult and very far from being solved unless destroying

labor unions and large corporations can be called a solution. An effective monetary policy will hinder product price increases and wage demands, providing a small measure of prevention. Recognition of inflation as a problem may help to instill in labor and management, a frame of mind conducive to inflation control. Specific rules could be devised to regulate collective bargaining in order to prohibit wage increases not justified by earnings and productivity.

Under the present tax structure, the Government shares 52% of any wage increase. That could be changed to make

wage surrendering more painful to profits.

The current slight recession should not lead to complacency. One look at the above enumerated inflation forces should prove that the problem is still with us. The Federal Reserve has succeeded in preventing a run-away inflation but there is considerable room for improvement. The recent lowering of the rediscount rate, although almost void of any real economic effect, announced the intention to inflate the money supply as a stimulant to support the present price level.

Pullman Incorporated

— 386th Dividend —
92nd Consecutive Year of
Quarterly Cash Dividends

A regular quarterly dividend of seventy-five cents (75¢) per share will be paid on March 14, 1958, to stockholders of record February 28, 1958.

CHAMP CARRY
President



Pacific Gas and Electric Company

DIVIDEND NOTICE COMMON STOCK DIVIDEND NO. 169

The Board of Directors on March 19, 1958, declared a cash dividend for the first quarter of the year of 60 cents per share upon the Company's common capital stock. This dividend will be paid by check on April 15, 1958, to common stockholders of record at the close of business on March 28, 1958.

K. C. CHRISTENSEN,
Treasurer
San Francisco, Calif.

P·G·and·E·

1957...

another year of solid accomplishment for American Encaustic

NOTEWORTHY EVENTS IN BRIEF:

INCREASED SALES made 1957 the largest sales year in the Company's history—a 17% increase over 1956.

EARNINGS rose for the fourth straight year—24% over 1956. Per share net amounted to \$1.87 versus \$1.50 a year ago.

DIVIDENDS continued at 70 cents a share—15 cents quarterly plus a 10 cent year-end extra. In addition, the Company paid a 4% stock dividend in December.

SALES PRICES Unit selling prices of American's products have not been increased during the past three years, despite three annual increases in salaries and wages, and generally higher manufacturing costs.

OUTLOOK FOR 1958 Capacity operations are expected to continue into the foreseeable future.



A copy of the 1957
annual report may be obtained
by writing the Company,
at Lansdale, Pennsylvania.

"America's Oldest Name in Tile"

AMERICAN ENCAUSTIC TILING COMPANY, INC.

Lansdale, Pennsylvania

Another Record Year at



It is a pleasure to tell you that in 1957 American Machine & Foundry Company again established new records.

- **Sales and Rentals: \$261,754,000, an increase of \$63,696,000—32% over 1956.**
- **Net Income (after taxes and preferred dividends): \$11,436,000, an increase of \$2,815,000—33% over 1956.**

AMF has paid dividends for thirty-one consecutive years. Dividends of 30¢ per share were paid on the common stock in each of the first three quarters of 1957. In the fourth quarter, the regular dividend was increased to 40¢ per share. At the year end, AMF stockholders numbered 21,213, an increase of 92% in five years.

Carter L. Burgess was elected President of AMF at the Board of Directors' meeting held February 4, 1958. His wide and varied experience in business and in the service of the Government will be of great value in matters of policy and administration.

I am entirely confident that AMF will continue to expand, to the benefit of its employees, customers and stockholders.

CHAIRMAN OF THE BOARD AND
CHIEF EXECUTIVE OFFICER

We will be pleased to send you a copy of the 1957 Annual Report

In its 58-year history, AMF has progressed into a broad-based company operating in four important areas:

- consumer products for recreational and leisure time activities
- automatic machinery and equipment for industry
- handling and launching systems for guided missiles
- atomic reactors and related nuclear equipment

— PLEASE USE COUPON —

Mr. C. J. Johnson, Secretary, Room 217
American Machine & Foundry Company
AMF Bldg., 261 Madison Ave., New York 16, N. Y.

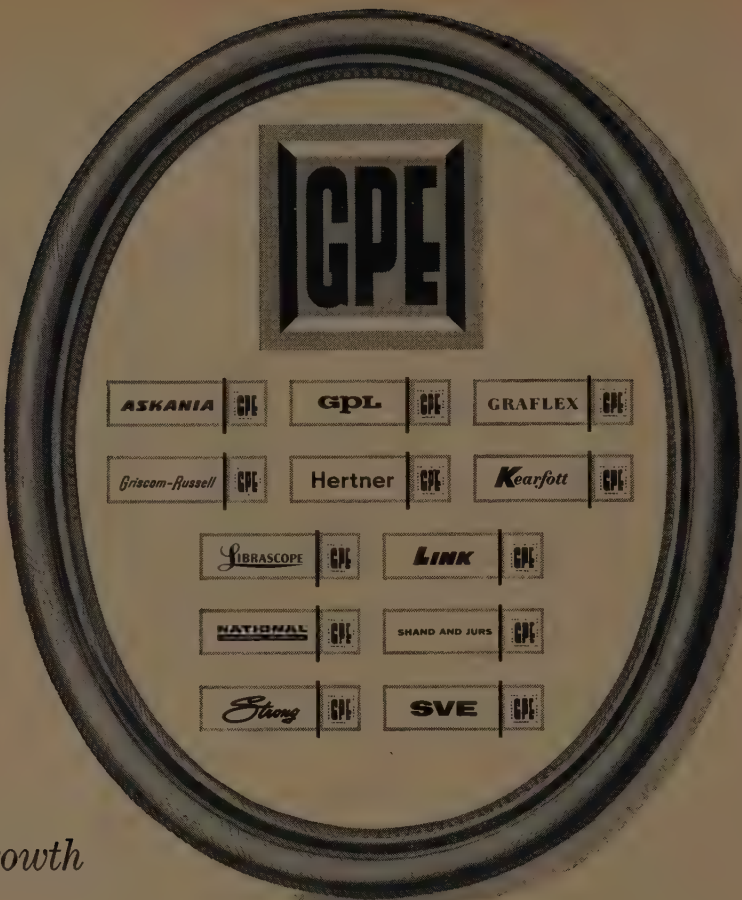
Please send me a copy of your 1957 Annual Report.

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Group Portrait —1957



Diversity and Growth

The GPE Companies make up a large and diversified Group, increasingly engaged in meeting the technological needs of industry and defense in many vital areas. They comprise a creative, scientific organization—keyed to advanced research, development and production of a broad line of components, computers and systems for use in automation, industrial process control, the control and guidance of aircraft and missiles, and in many other dramatic new fields. During 1957 sales increased 20% to a record \$185,000,000, divided about one-third commercial, two-thirds military, and profits increased by 78% over 1956. At the beginning of 1958 the backlog of orders was \$160 million. More and more, civilian industries and the Armed Services call upon GPE Companies to create, develop and manufacture a wide variety of products that anticipate the demands of tomorrow's technology.

PRODUCT PANORAMA—1957

Defense Technology—Shipments of GPL's military Radan (self-contained air borne Doppler navigation systems) up 40% in 1957.... *Librascope*-developed fire control system for new Navy RAT (Rocket Assisted Torpedo) missile.... Smallest complete digital navigational com-

puter (6¼ lbs.) developed by *Librascope* successfully tested in flight.... Development and shipments of *Link* simulators stepped up for missile crew training and pilot training for latest jet fighters.... Biggest year in history for *Kearfott* sales of central gyro reference systems, high accuracy gyroscopes and related precision components.... *Kearfott* products now in every operational and developmental aircraft in the U. S. Armed Forces, are scheduled for 25 different missiles.... Jupiter C, the missile that launched the first U. S. satellite, contained 22 *Kearfott* components.

Industrial Equipment and Controls—GPL received the first contract awarded by the Air Modernization Board, a Federal Agency charged with developing and modernizing a national system of air traffic control.... GPL's commercial Radan being evaluated operationally by major airlines.... *Link* simulators for jet and turbo-prop airliners purchased by leading airlines, domestic and foreign.... *Askania* equipment installed at 25 stations of Little Big Inch pipe line maintains petroleum pressure and flow automatically.... Delivery of *Librascope's* 100th LGP-30 desk-sized computer for engineering-scientific use.

Television and Motion Picture Theatre Equipment—*Strong Electric* developed most powerful arc

ever adopted for a projector lamp (up to 51% greater light output)—a boon for drive-in theatres with their huge screens.... GPL-developed television and motion picture projection equipment used in first experimental "cable-theater" at Bartlesville, Okla.... Television camera for educational applications developed by GPL, featuring view finder, 4-lens turret.... *Bludworth Marine*, division of *Kearfott*, produces special television camera for underwater observation.

Consumer Products—*Graflex* introduced: the Super Graphic 45, an all-new press camera; a popularly priced 35 mm camera; the Strobomite, a compact electronic flash unit; and the Constellation, a semi-automatic slide projector.

FINANCIAL SUMMARY

	1957	1956
Net Sales	\$185,093,842	\$153,261,864
Net Profits	4,263,949	2,394,729
Net Profit per Common Share	\$3.03	\$1.64
Dividends per Common Share	2.40	2.40
Backlog at Year End	160,000,000	167,660,000
Working Capital at Year End	53,219,000	47,438,000

For a copy of the 1957 Annual Report, write the Secretary of the Corporation.

GENERAL PRECISION EQUIPMENT CORPORATION
92 GOLD STREET • NEW YORK 38, NEW YORK

PRINCIPAL SUBSIDIARIES: Askania Regulator Company, Chicago, Illinois; General Precision Laboratory Incorporated, Pleasantville, New York, (Subsidiaries: Pleasantville Instrument Corporation, Pleasantville, New York, Simplex Equipment Corporation, Pleasantville, New York); Graflex Inc., Rochester, New York, (Subsidiary: Society for Visual Education, Inc., Chicago, Illinois); The Grisco-Russell Company, Massillon, Ohio; Kearfott Company, Inc., Little Falls, New Jersey, (Subsidiaries: The Hertner Electric Company, Cleveland, Ohio, Kearfott Manufacturing Corporation, Newark, New Jersey); Librascope, Incorporated, Glendale, California, (Subsidiary: Precision Technology, Inc., Livermore, California); Link Aviation, Inc., Binghamton, New York; National Theatre Supply Company, New York, New York; Shand and Juris Co., Berkeley, California; The Strong Electric Corporation, Toledo, Ohio; Theatre Equipment Contracts Corporation, New York, New York.

Improving the Flow of Corporate Information

T. C. THOMSEN

THE TECHNIQUES OF FINANCIAL PUBLIC RELATIONS have come a long way since one of the early pioneers in the field set up the first department of stockholder relations. Today most companies have given formal recognition to this function. In some instances special departments have been "set up" to administer programs of stockholder and financial relations. In others, outside consulting agencies are employed, or the responsibilities involved in building good relationships have been added to the duties of one of the company's officers.

The pattern has been far from clear-cut. To some extent this has reflected the desire of management to organize its financial public relations function in a manner that reflects its own needs, problems, opportunities, policies, procedures, and personnel, which probably is the correct way of going about the task.

Ask the average analyst and he will tell you his inconsequential mail from companies and their public relations advisors has gotten out of hand, and that he is becoming very tired of being visited by people who cannot or will not tell him more details than he can read in the services.

If the function of financial public relations has not always worked as effectively as intended, the explanation may be found in the relatively poor understanding that the financial community and management have of what each can reasonably expect of the other. The lack of understanding goes quite deep. Analysts themselves are not agreed on what they should expect of management and their public relations representatives. What may a security analyst reasonably expect of a company's public relations representative? Sometimes a distinction is made between a public relations representative who is part of the management organization and one who is on a retainer. There should not be a difference. The analyst should expect to get first-class service from both. Also, it ought not be necessary to make distinctions between treasurers, secretaries, public relations officers, and consultants as corporate spokesmen, provided all are well equipped with information and understanding to interpret the company intelligently. Whatever standards an analyst has developed for measuring service should be applied equally to all who seek his interest and support, without regard for corporate title.

WHAT THE ANALYST SHOULD EXPECT

The security analyst has a right to expect the following from the public relations representative of corporate management:

1. That the public relations representative should present an accurate picture of the company's affairs, including unfavorable as well as favorable news. The analyst must insist on this; otherwise he may arrive at a completely faulty picture, and could cause serious losses to clients of his firm. He should realize, however, that giving out bad

news comes unnaturally to most managements, and that in the early stages of a new relationship there will be a feeling-out period during which the company representative will be trying to evaluate the consequences of taking the analyst into his confidence. The feeling-out period can develop favorably or unfavorably, and both the analyst and the corporate representative should realize that each has a responsibility for the outcome.

2. That the public relations representative's understanding of his company's affairs will be thorough. The complaint is frequently made that the corporate spokesman is poorly equipped with information. This should not be. If he is really serious about his work, he will arm himself with all the information he can gather. He will need to have access to corporate thinking, and this will mean being able to count on the full support and confidence of management. If he does not have the necessary information or his management's confidence, he will only waste the analyst's valuable time, and very few analysts will allow themselves to be put in that position for long.

3. That the public relations representative's objective is to help assure an appraisal that is based on a sound understanding of the facts, and to that degree will present information but will leave forecasts and evaluations up to the analyst. The job of the public relations man is to present information—sound, complete, accurate information. It is definitely not his job to present conclusions. That is the responsibility of the analyst, and most analysts worth their salt will resent being shown how information should be evaluated.

4. That the public relations representative will not release more data to one party than to another if both parties have an equal right to information. All security analysts should have equal access to information, for to give one analyst more than others puts him in an advantageous position that is unfair to the rest, who, in a very real sense, are competing with him for information. There are bound to be exceptions to this, of course. It does not follow, for example, that because a management gives certain information to an important stockholder, it must also give that information to everybody else. Certainly the responsibility of management to protect the interests of the company will have an important bearing on what information will be released and under what circumstances.

5. That the public relations representative will withhold only that information which would jeopardize the best interests of the company or the country, or would violate accepted standards of good taste and decency. The ideal objective is full disclosure, and this is supported and encouraged by the rules and regulations of the SEC, the principal stock exchanges, and by most financial organizations. However, there are a number of quite obvious limitations which prudent management must observe. For ex-

ample, it has no right to disclose information which could be used by competitors to their advantage. In a period of hostilities, hot or cold, it is also required to safeguard information of military value. At all times it is expected to act in accordance with established standards of good taste and decency. While these restrictions do exist, it is nevertheless true that they eliminate only a relatively small portion of that large body of information that security analysts need and would like to have in making their evaluations. The contention of most analysts is that the confidential classification is frequently too broad, and that much information so classified could be divulged without seriously impairing the company's competitive standing.

6. That the public relations representative will seek constantly to bring about an understanding throughout management of the importance of an informed and interested financial community. A major complaint of many analysts is that the public relations representative understands their needs and problems but he does not have the full support of his management, and as a consequence the help he can give is frequently quite limited. This is the fault of the public relations representative and should be recognized as such by the financial community. The confidence that managements have will not be any better than the efforts of their public relations representatives to develop their understanding and support. It is time-consuming to have to "sell" management on what you want to do and why it is important to the company, and yet it is an absolutely necessary responsibility of the public relations representative.

7. That the public relations representative is motivated only by concern for the welfare of his client, and is immune to special considerations of any kind. In the early, formative days of financial public relations, one occasionally heard of deals between a client and financial public relations counsel involving such special considerations as stock options. Fortunately, this highly questionable and irregular practice has disappeared from the scene almost entirely, to the credit of both the financial public relations field and to corporate management itself. Nevertheless, there is still to be resolved the matter of whether or not it is proper for public relations counsel to hold stock in client companies. The writer has always taken the position that having an investment in client companies might alter the acceptance accorded him by the financial community. It is absolutely essential that public relations efforts in behalf of a client should be completely free of any kind of suspicion, and the best way of assuring this is by removing all possible bases for question.

There is more that the security analyst should expect from the public relations representative, but the seven points just mentioned are the most important.

The burden of bringing about a relationship based on the above seven points, which might be called requirements for earning the confidence of the financial community, rests on the shoulders of the public relations profession

and client companies. There is no question that there is need for improvement in the quality of service rendered to the financial community, and the improvement has got to come from an active desire on the part of the public relations field to want to serve more usefully. But the responsibility for effecting change and improvement does not rest exclusively with the public relations profession. The financial community has an important stake in the matter and can help spur on the efforts of the public relations practitioner by letting him know from time to time just how useful his service has been and where improvements can and need to be made. There may be occasions when pretty blunt talk will be to the very best interests of all concerned.

ACCURATE INFORMATION TO BE PRESENTED

The legitimate role of the public relations specialist is in the field of supplying accurate and useful information—not the areas of giving counsel, forecasting earnings, offering conclusions, or advising analysts when to buy or sell securities, for these are strictly the province of the broker who is compensated for doing these things and carries full responsibility for the outcome. Frequently, the public relations man is asked to give his opinion on the outlook for sales, earnings, dividends, etc. He should not, but too often he succumbs to the temptation and to the desire to be helpful, and quite frequently the results prove disastrous. This pitfall can be avoided if the security analyst will recognize that, given all the necessary information, he is better trained than the public relations specialist to come up with an accurate evaluation.

These points are by no means in broad use throughout the field of security analysis, and so there are fertile fields that analysts can cultivate, as well as public relations specialists, in efforts to make the most effective use of their common interests.

There is no question that the need for improvement is there. The status of both security analysis and financial public relations can be upgraded very significantly. Both professions have come into being in recent years and have developed very rapidly. Both are represented by many people of top caliber, and both are paying the penalty of having an average number of misfits. In both professions there are still many who find it increasingly difficult to adjust to change, and would prefer to go back to the good old days when analysis was mostly intuitive and public relations operated by the seat of its pants.

HIGH QUALITY INFORMATION TO BE DEMANDED

It is in the best interests of both security analysis and public relations that the quantity and quality of corporate information be constantly upgraded. A major step in this direction can be accomplished if both security analysts and public relations practitioners take a new look at the relationships they have established and search for ways in which they can be strengthened and made more useful.

White



Send for your copy of the White Annual Report. Address your request to: Treasurer, The White Motor Company, Cleveland 1, Ohio.

WHITE MOTOR 1957 SALES REACH NEW PEAK

For the third straight year, The White Motor sales volume rose to a new all-time record. The increase amounted to 9%. The total volume of sales of all products and services was \$225,912,070.

Earnings Second Highest In Company History

Operating income before provision for Federal and Canadian income taxes was \$15,093,205 in 1957, and \$14,887,875 the previous year. Net income for 1957 was \$6,833,205 compared with \$7,187,875 in the previous year.

Cash dividends paid on common stock during 1957 totaled \$3.00 per share, the largest annual distribution during the 17-year period in which consecutive quarterly cash dividends have been paid.

THE WHITE MOTOR COMPANY Cleveland 1, Ohio

Autocar Division—Exton, Pa. • Reo Division—Lansing, Mich.

White Diesel Engine Division—Springfield 99, Ohio

The White Motor Company of Canada Limited—Toronto 14, Ontario



*For More Than 55
Years The Greatest
Name In Trucks*

YEAR AT A GLANCE

	1957	1956
Net Sales	\$ 225,912,070	\$ 207,411,732
Net Income	6,833,205	7,187,875
Cash dividends paid on preferred stock	299,578	302,731
Cash dividends paid on common stock	2,941,004	2,776,355
Number of shares of preferred stock outstanding (December 31)	56,037	57,489
Number of shares of common stock outstanding (December 31)	981,468	976,659
Net income per share of common stock	\$ 6.66	\$ 7.05
Cash dividends paid per share of common stock	\$ 3.00	\$ 2.85

THE TEXAS COMPANY

Reports for 1957

HIGHLIGHTS

FINANCIAL	1957	1956	**OPERATING • Barrels per day	1957	1956
Net income	\$332,303,644	\$302,262,620	Gross crude oil produced:		
Net income per share	\$5.94	\$5.51	Western Hemisphere	617,519	577,050
Cash dividends paid	\$128,906,925	\$128,978,474	Eastern Hemisphere	435,536	393,295
Cash dividends paid per share	\$2.35*	\$2.35	Total world-wide	1,053,055	970,345
Working capital (end of year)	\$595,721,833	\$598,547,070	Refinery crude oil runs:		
Capital expenditures	\$389,301,923	\$502,613,766	Western Hemisphere	794,607	726,929
Exploration expenses, including dry holes	\$ 92,406,408	\$ 87,285,892	Eastern Hemisphere	268,990	248,945
			Total world-wide	1,063,597	975,874
			Petroleum product sales:		
			Western Hemisphere	735,098	702,490
			Eastern Hemisphere	320,510	281,110
			Total world-wide	1,055,608	983,600

*In addition, a 2% stock dividend was paid in 1957.

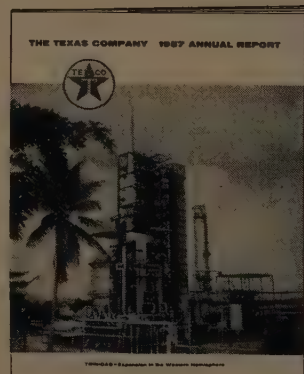
**These statistics include 100% of the operations of subsidiary companies and the Company's equity interest in the operations of companies owned 50% or less.

CONSOLIDATED BALANCE SHEET—DECEMBER 31

ASSETS			LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT ASSETS:	1957	1956	CURRENT LIABILITIES:	1957	1956
Cash and securities	\$ 229,866,336	\$ 266,783,841	Notes, contracts, and accounts payable and accrued liabilities	\$ 238,716,827	\$ 214,701,923
Accounts and notes receivable	279,599,475	269,212,883	Estimated income taxes (less Government obligations: 1957—\$60,000,000; 1956—\$70,000,000)	49,655,639	35,284,665
Inventories	374,628,488	312,536,934	Total current liabilities	\$ 288,372,466	\$ 249,986,588
Total current assets	\$ 884,094,299	\$ 848,533,658	LONG-TERM DEBT	\$ 306,739,743	\$ 363,855,182
INVESTMENTS AND ADVANCES	\$ 180,648,163	\$ 182,216,486	RESERVES	\$ 43,141,922	\$ 9,589,629
PROPERTIES, PLANT, AND EQUIPMENT:			MINORITY INTEREST	\$ 37,471,373	\$ 30,725,994
Gross	\$3,189,622,656	\$2,857,950,714	STOCKHOLDERS' EQUITY:		
Less—Depreciation, depletion, and amortization...	1,599,537,399	1,422,483,869	Par value of capital stock issued—shares \$25 each	\$1,408,887,650	\$1,381,262,400
Net properties, plant, and equipment	\$1,590,085,257	\$1,435,466,845	Capital surplus	38,675,350	—
DEFERRED CHARGES	\$ 74,266,910	\$ 37,912,810	Retained earnings used in the business	605,806,125	468,710,006
	\$2,729,094,629	\$2,504,129,799	Total stockholders' equity	\$2,053,369,125	\$1,849,972,406
				\$2,729,094,629	\$2,504,129,799

CONSOLIDATED INCOME STATEMENT

	1957	1956
GROSS INCOME:		
Sales and services	\$2,344,176,856	\$2,046,305,092
Dividends, interest, and other income	104,985,554	131,045,562
	<u>\$2,449,162,410</u>	<u>\$2,177,350,654</u>
DEDUCTIONS:		
Costs, operating, selling, and general expenses	\$1,684,072,902	\$1,485,605,286
Taxes (other than income)	69,845,086	63,977,198
Dry hole costs	45,428,145	43,145,321
Depreciation, depletion, amortization, and leases surrendered	216,176,860	189,899,810
Interest charges	12,512,084	8,512,730
Provision for income taxes	83,900,000	78,600,000
Minority interest in net income of Canadian subsidiaries	4,923,689	5,347,689
	<u>\$2,116,858,766</u>	<u>\$1,875,088,034</u>
NET INCOME FOR THE YEAR	<u>\$ 332,303,644</u>	<u>\$ 302,262,620</u>



A limited number of copies of the Annual Report are available upon request to the Secretary, The Texas Company, 135 East 42nd Street, New York 17, N. Y.

TEXACO

History of the Dollar

ROBERT SHAW

WHAT IS THE DOLLAR, and from where did it come? The first question, on the surface, may seem foolish, and the second immaterial. Everyone knows what dollars are; they are that green, crinkly paper stuff which the philosopher scorns and everyone else is constantly struggling to accumulate. But on more searching analysis, the actual meaning of a dollar is not so clear. Those bills you carry in your left hip pocket are not really dollars; instead they are tokens which presumably entitle you to receive dollars upon demand. Just what real dollars look like since devaluation and where you receive them remains somewhat of a fiscal mystery.

The second question, from where did the dollar come, is the easier to answer. Irrelevant, perhaps, but for a few minutes let us try to prove to our European critics that our interest in the dollar is not purely mercenary, but also cultural.

Money serves two major purposes: first, a medium of exchange, and, second, a measure of value. These two functions are closely related and yet they are not identical; different characteristics in a currency unit may serve each of them better. As a medium of exchange money must be uniform in appearance, easy to identify, difficult to counterfeit, and convenient in size and shape. As a measure of value the most important attribute is widespread usage. It is possible that values may be expressed in a money unit that does not exist in tangible form, or even, as was true during the colonial period in our own country, that the common medium of exchange may be a different currency unit than the system in which prices are reckoned and accounts kept.

DEBASEMENT

But money as a medium of exchange has to be tied in somehow with money as a measure of value, and this was done in primitive economies by expressing the basic monetary unit as a given weight of precious metal. As a relic of this period, many basic currency units continue to bear names which once corresponded with weights—the pound, the mark, the libra, the shekel, the tical, etc. Over a period of time, however, as the art of debasing the currency was developed by a more sophisticated society, the original relationship between the value of most monetary units and their weight in gold or silver has been entirely lost. Rulers followed one of two practices, both having the same effect, either to reduce the fine metallic content of coins or to increase the number of subsidiary units contained in a larger denomination. In either case, they hoped, of course, that exchange value on the market would decline more gradually, leaving them some temporary profit out of which they could for a little while finance their wars and their mistresses.

This process of debasement has been so universal that any coin that has maintained a relatively constant value

over a long period of time is the rare exception. Numerous sad illustrations may be cited: the roman *aes* originally represented a pound of bronze, but was successively reduced until it finally consisted only of an ounce. The denarius, which replaced it as the principal Roman coin, was again so depreciated that it now serves as the abbreviation (d.) for the British penny. As coins were normally units of intrinsic value, these instances of reduction of the metallic content represent a different and more deliberate form of depreciation than the modern inflation of paper currency.

While periodic debasement has brought temporary advantages to rulers, it has naturally been injurious to commerce and trade. The business world has, therefore, constantly been looking for a newer and more trustworthy currency unit, a coinage less subject to political abuse. The introduction and protection of such units even by small and little known states has proved an enormous advantage to the issuers by acting as a magnet for trade and investment.

THE THALER

One new coin that rapidly won a wide following for its superior characteristics was the silver equivalent of the existing gold gulden, which appeared in several of the German states around the beginning of the Sixteenth Century. Among the confusing diversity and frequent debasement of the money then circulating in the Holy Roman Empire, the new silver guildens, minted by the Counts of Schlick, in Bohemia, beginning in 1518, achieved a particular reputation for purity and uniformity. Thus these coins experienced a heavy demand. As the silver from which they were minted was mined in Joachimsthal (i.e., the valley of Joachim), they were soon dubbed Joachimsthalers, later shortened to thalers. As the thalers gained popularity they were widely imitated throughout Germany and circulated among foreign countries by Hanseatic traders. This denomination became transliterated into Dutch as *daalder*, into Scandinavian as *daler*, and into English as *dollar*. The dollar was already familiar to Elizabethan England and the word is mentioned four times by Shakespeare.

The dollar as a unit of currency did not, however, enter the American continent from England. Although northern Europe was beginning to rise in commercial prominence during the Sixteenth Century, the wealthiest state in Europe was still Spain, to which, despite the activities of English pirates, a constant flow of silver and other wealth from "The Indies" was being transferred. In Spain the predominant coin of this period was the peso, or piastre, subdivided into eight reals of fine silver. The peso was first minted in Spain at least as early as 1513. Its silver content varied slightly from time to time and from mint to mint, but for a period of centuries it remained within a very narrow range of 385 grains of pure silver in a total weight of 415 grains, making it probably the most reliable coin that has ever been known.

As Spain and the Netherlands were politically united for a century after 1506, and Charles II of Spain was also elected Holy Roman Emperor in 1519, Spanish pesos began to be struck in Germany and the Netherlands. Consequently, a popular identity arose between the peso and the thaler (or dollar), which approximated each other in appearance and value. The silver content of the thaler, which was struck in numerous petty German states, was, however, much less uniform than that of the peso, and the latter became preferred in world trade. In England the Spanish value was thus attached to the German-derived word, and the peso, wherever minted, became known as the Spanish dollar. This coin, sometimes with the bust or initials of the British ruler countermarked upon it, became a familiar medium of exchange in England itself during the Eighteenth Century, and from the earliest settlement of the British colonies in America Spanish currency was more common than that of the mother country. As Spanish mints were established in Mexico in 1535 and in Peru in 1621, a convenient supply of Spanish coins was available.

The popularity of the Spanish dollar in the British North American colonies was enhanced not merely by its own merits, but by the conflicting currency standards prevailing among these colonies. Only one colony (Massachusetts) ever minted silver coins, but all of them issued paper money, based on the British system of pounds, shillings and pence. These note issues were recurrently depreciated and revalued, until they lost all original relationship either to British money or to one another. During most of the Eighteenth Century and on the eve of the American Revolution the par value of the colonial currencies varied as follows:

	Value of Spanish dollar in local currency
Georgia	5s.
South Carolina	32s. 6d.
North Carolina	} 8s.
New York	
Virginia	} 6s.
New England	
Pennsylvania	} 7s. 6d.
Maryland	
Delaware	
New Jersey	
England	4s. 6d.

These disparate standards made it essential, when trading between colonies, to specify the colony in whose currency prices were expressed. The resultant confusion naturally increased the advantages of the Spanish dollar as a uniform, reliable medium of exchange, particularly in intercolonial payments. But while the Spanish dollar was the most widely used circulating currency, the colonists continued to reckon prices and keep accounts in pounds, shillings, and pence.

When on the outbreak of the Revolution the Continental Congress, facing the difficult task of financing that struggle,

proposed to issue for the first time a single uniform currency for all of the colonies the conflicting values of pounds and shillings from colony to colony ruled out the use of those denominations. Under these circumstances it was undoubtedly the natural step to define the new "American" currency in terms of the already familiar Spanish dollars, and the first issue of two million dollars in Continental currency was printed from copper plates which Benjamin Franklin helped to design, bearing the following inscription:

Continental Currency

No. Dollars
This bill entitles the Bearer to receive
Spanish milled Dollars, or the Value thereof in
Gold or Silver, according to the Resolutions of
the Congress held at Philadelphia, on the 10th
day of May, A.D. 1775.

These bills were all laboriously numbered and signed by hand. Sad to relate, the country was soon flooded with "Continental," their value dropped precipitately, and they were finally ignominiously redeemed at one new dollar for forty of the old in 1780, and at one dollar in United States bonds for \$100 in "Continental" in 1790.

The dollar was not yet at this time a decimal currency. The Spanish dollar was divided into eight reals, or "bits," which were frequently represented in circulation by actual sections cut from the peso. In North Carolina and New York the "bit" corresponded exactly with the shilling, and in Pennsylvania, Maryland, Delaware and New Jersey very nearly so, making the shilling and the real interchangeable. In other states this identity between the two units was lacking. In order to allow more convenient calculations between the new national money and the existing currency each state divided the dollar locally on the basis of the par value relationship between it and its own shilling. Thus, in Pennsylvania, where the dollar was worth 7s. 6d., it contained 90 pence. In New York it contained 96 pence, and in New England and Virginia 72 pence. The First National Bank of Boston (not "National" at that time) kept its earliest accounts in dollars of 72 pence. Congress itself, sitting in Philadelphia, divided the dollar into ninety pence. Our Colonial ancestors, who should have been accomplished mathematicians among this welter of conflicting currencies, seemed to show no natural proclivity for the decimal system. When the Continental Congress got around to issuing fractional bills it did so for 1/9, 1/6, 1/3, 1/2 and 2/3 of the dollar.

During the first decade of America's independence, while Congress was issuing its Continental currency, supposedly redeemable in Spanish dollars, the individual states continued to print their own paper money and to mint or import subsidiary coins, still usually in English denominations. A few states printed money expressed in both systems of currency, such as a New York State note of 1776 for 5s. 4d./two thirds of a dollar. The Articles of Confederation, however, gave the Federal Government the right to regulate the alloy and value of coins struck by the States, and under this authority Congress attempted, beginning in 1782, to establish a uniform national system of currency. The new system was worked out principally by Gouverneur

Morris, Robert Morris, Thomas Jefferson and Alexander Hamilton.

Robert Morris, the first Superintendent of Finance, considered it important to contrive some national system that would allow the easy assimilation of all of the existing state standards. Observing that the Spanish dollar was variously worth 5s., 6s., 7s. 6d., and 8s. in different states (except South Carolina, where the shilling was excessively devalued), he computed that the least common denominator of the corresponding values in pence (i.e., 60, 72, 90 and 96 pence, respectively) was 1440, and proposed, therefore, to divide the Spanish dollar into 1440 units, to be called "quarters" (because each would correspond with a quarter of a grain of silver). Starting from the "quarter" as the revised basic unit, a new coinage system on a decimal ratio would be built up. The most convenient coin in this series would be the "mark," of 1,000 "quarters," or 250 grains, worth about two-thirds of a Spanish dollar.

THE DOLLAR FORMALLY ADOPTED

Happily, Jefferson vetoed this abstruse system, and successfully urged retention of the Spanish dollar as the standard unit, with subdivisions on a decimal basis. On July 6, 1785, Jefferson's scheme was formally adopted by Congress. Although no dollars and few coins of any denomination were minted by the United States Government pursuant to this resolution, it did establish the future character of the currency. This legislation left some impression, however, that Congress under the Confederation intended merely to regulate the currency, while the States should continue to mint coins and print bills according to their own requirements, and on this premise Massachusetts, in 1786, issued the first decimal coins in history.

It was not until after the adoption of the Federal Constitution in 1789 that a true national currency system was established. That document specifically prohibited any State from issuing money, either coins or bills. (After the recent unpleasant experience with the "Continental" there was even a strong feeling that the Federal Government itself should not be allowed to issue paper money, and none was issued, in fact, for over 70 years.) The Mint Act of April 2, 1792, again defined the United States dollar as the "value of a Spanish milled dollar as the same is now current." The

silver content of the new dollar was fixed at 371¼ fine grains, a slight reduction from the newly minted Spanish peso, but a measure which was thought to conform more closely with a random sample of the slightly worn Spanish dollars actually found in circulation. A ratio of 15:1 was established between silver and gold at the same time.

The first true American dollar was minted in 1794, completing the process of evaluation from its distant ancestors, the Spanish peso and the Bohemian Joachimsthaler of the early Sixteenth Century. Actual Spanish dollars, however, continued to circulate widely in the United States for many years, and remained legal tender until 1857.

The long history of the silver dollar as an influential currency unit was really terminated in 1873, when the United States abandoned bimetallicism in favor of the gold standard, thereby demoting the silver dollar from a coin of intrinsic value to a mere token. But the record of the "Spanish dollar" remains a brilliant one. For three and a half centuries the same coin, under several names, through severe vicissitudes, and in many countries, maintained a continuous existence with a nearly constant metallic content. The more recent gold dollar has not performed nearly as well.

THE DOLLAR SIGN

The origin of the familiar dollar sign is obscure. There are several plausible explanations. It has been related to the letter S, for the Roman sestertium, and to the abbreviation US written in superimposed fashion. Neither of these theories is likely. The dollar sign is not as ancient as the Romans nor as recent as the United States. A greater weight of evidence relates it to the Spanish peso. For several centuries these coins bore prominently upon their obverse two architectural columns, representing the Pillars of Hercules. This feature was, in fact, so conspicuous that the coin was frequently identified as the Spanish pillar dollar.

It seems probable that the dollar sign arose out of some combination of these pillars with the figure "8", signifying the eight real value of the peso. During the reign of Charles V, when the peso was being struck in the Netherlands and Germany, this emblem would have helped to distinguish the Spanish "dollar" from other thalers then being minted in Germany.

AMPHENOL

AMPHENOL ELECTRONICS CORPORATION

At a meeting of the Board of Directors of Amphénol Electronics Corporation held today a quarterly dividend of thirty cents per share was declared, payable April 25, 1958, to the shareholders of record at the close of business April 11, 1958. The transfer books will not be closed.

Dated at Chicago Feb. 25, 1958.

FRED G. PACE
Secretary

DIAMOND GARDNER CORPORATION

77th CONSECUTIVE
YEAR OF DIVIDENDS

GROWING FOR THE FUTURE



MATCHES • CARTONS • PULP PRODUCTS • LUMBER • BUILDING SUPPLIES • WOODENWARE

The Board of Directors of Diamond Gardner Corporation on March 27, 1958, declared a regular quarterly dividend of 45c per share on the Common Stock. At the same meeting the Board also declared a quarterly dividend of 37½c per share on the \$1.50 Cumulative Preferred Stock. Both dividends are payable May 1, 1958 to stockholders of record April 7, 1958.

PERRY S. WOODBURY
Secretary and Treasurer

Lockheed Management answers your questions about:

Lockheed's Activities in Research and Development

1. How extensive is Lockheed's research and development program?

Lockheed is presently engaged in research and development activities that probably are the broadest in the aircraft industry. During 1958 Lockheed will be pushing ahead on nearly 100 challenging research and development projects—ranging from highly ingenious manned aircraft designs to studies of ion and other forms of atomic propulsion of air and space vehicles and remote guidance of unmanned space ships.

Lockheed's intensive missile research is reflected in rapidly increased sales. Missile sales represented 8% of Lockheed's all-time record business of more than \$868 million in 1957. This proportion is expected to climb to 20% or better in 1958 as work is accelerated on various Missile Systems Division programs, including the U.S. Navy's long range fleet ballistic missile, POLARIS, for which Lockheed is the prime contractor.

In the field of atomic power, Lockheed's Georgia Division and the U.S. Air Force are constructing the nation's largest laboratory for nuclear aircraft research and testing of radiation effects on aircraft systems. This Lockheed-operated Air Force research center is being constructed on a 10,000-acre site near Dawsonville, Georgia, and will go into service early in 1959.

Lockheed also has devised plans to enter another nuclear field—the design and manufacture of atomic reactors as a source of commercial and industrial power and heat.

2. Which of Lockheed's R&D projects has the biggest potential for near-future production contracts?

The POLARIS Fleet Ballistic Missile: Recent history-making technological events have given added impetus to the development of this top-priority U.S. Navy missile. The 1500-mile range of the POLARIS, combined with the Navy's world-wide mobility, could subject virtually any military target on earth (including submarine pens and bases) to swift and devastating retaliatory action from the sea— independent of fixed launching sites.

Lockheed is missile system manager on the POLARIS program, and has already received \$130 million in contracts—for pre-production development work on the POLARIS. There is every assurance that Lockheed will receive production contracts for the POLARIS in large quantities—as this solid propellant space-age missile fills a vital need in our nation's total defense program. (See POLARIS organization chart, opposite page.)

3. What is Lockheed's position in the field of electronics research and development?

Lockheed's pioneering leadership in airborne electronics—and the fact that Lockheed has designed and built more Anti-Submarine Warfare and Airborne Early Warning radar planes than any other company—will continue to be an important source of new contracts for Lockheed.

All of our operating divisions have made significant progress in both airborne and ground electronic devices and services. Last year we formed a special diversification task force to study the desirability of mergers or acquisition of companies that could add to our already long experience and established "know-how" in electronics.

Our goal is not merely the development of greater technical competence in these areas. We plan to build a full, well-rounded electronics capability to match our overall design, manufacturing and servicing abilities and thereby improve our potential in managing complete weapon systems—like Lockheed's POLARIS, and the giant earth satellite we are developing for the Air Force.

4. What areas of advanced research is Lockheed presently engaged in?

The following list is necessarily incomplete, due to the omission of those research projects which by their mere listing would reveal their significance and thereby violate security:

1. *Effects of gravity on electrical flow (outer space communication)*
2. *Superconductivity of materials at low temperatures (relative to manned space flight)*

3. *Hydromagnetic shock waves—100,000 mph, 100,000 degrees centigrade—to study flow of ionized gases at extreme Mach numbers (relative to ion engines for space travel)*

4. *Study of opacity of air (and effects on very high speed flights in atmosphere)*

5. *Cosmic ray investigation (space flight)*

6. *Ion propulsion (of space vehicles)*

7. *Physiological endurance limits in outer space travel (man's capacity to cope with new environmental sensations and hardships)*

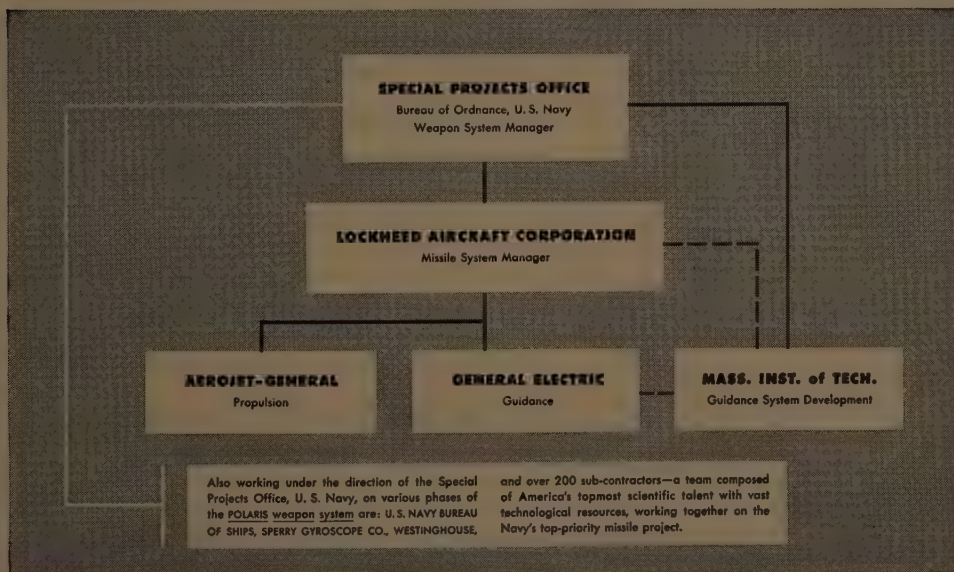
8. *Infrared radiation studies (leading to instruments for collision avoidance of manned aircraft)*

9. *Advanced astronautics (navigation in space)*

10. *Solar energy studies (leading to electrical power for radio transmission of data from orbiting satellites)*

Lockheed, always in the forefront of technological developments, is expanding its research activities to include new frontiers. In Lockheed's vast laboratories, a dedicated staff of scientists is working to improve the world we live on, and to achieve new miracles in man's swift conquest of outer space.

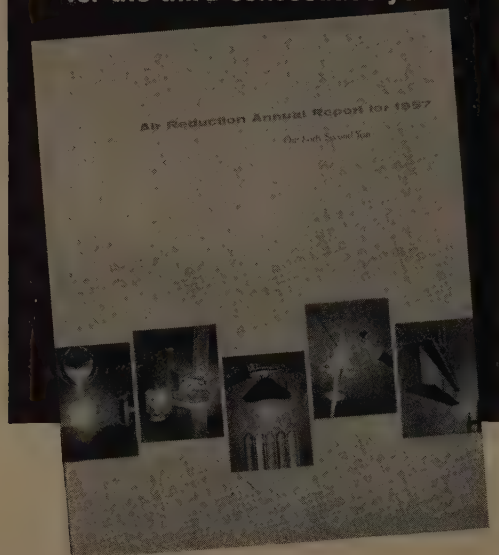
This is the task force developing the POLARIS—new Fleet Ballistic Missile for the U. S. Navy:



LOCKHEED means leadership

Air Reduction reports another record year

Sales and earnings reach new highs
for the third consecutive year



Air Reduction sales in 1957 reached a record \$189,987,698 as compared with the previous all-time high of \$169,818,703 in 1956. Net income for 1957 was \$16,476,180 as compared with \$15,731,579 in 1956. Earnings per share, based on the average number of shares outstanding, were a record \$4.35 in 1957, as compared with \$4.32 in 1956. The average number of shares outstanding increased from 3,577,923 in 1956 to 3,760,448 in 1957.

GROWING SERVICE—TO ALL INDUSTRY

Air Reduction's extensive program for expansion and modernization of producing facilities, combined with an ever increasing research and development effort, have broadened the product base to a wide degree of diversification. Today, Air Reduction manufactures and markets products for virtually every segment of the nation's economy. The major industries served include: aircraft and missiles; metalworking, construction and steel; food and beverage; paint, textile and plastics; chemical; electronics; and transportation. Also, the medical field is a large user of Airco products. Among the products produced and sold by Air Reduction are industrial gases, and welding and cutting equipment; acetylene for chemical uses, vinyl acetate and other chemicals; carbon dioxide; and medical gases and hospital equipment.

Financial highlights

	1957	1956	1955
Sales	\$189,987,698	\$169,818,703	\$149,231,826
Depreciation and Accelerated Amortization	10,214,924	9,964,084	9,297,055
Income Before Taxes	32,469,537	31,799,113	23,796,889
Federal and Foreign Taxes	15,993,357	16,067,534	12,227,599
Net Income	16,476,180	15,731,579	11,569,290
Earnings Per Share of Common Stock—			
After Preferred Stock Dividend (based on average number of shares outstanding during the year)...	4.35	4.32	3.54
Dividends Paid Per Share—Common	2.375	1.90	1.50
Capital Expenditures	29,050,000	18,400,000	10,750,000
Stockholders' Equity	124,049,474	115,653,995	105,954,459
Total Assets (less applicable reserves)	195,328,637	162,611,483	150,886,087
Shares of Common Stock Outstanding			
Average Number During Year	3,760,448	3,577,923	3,009,639
Actual Number at End of Year	3,796,335	3,687,665	3,323,095
Number of Stockholders at End of Year			
Common	23,803	22,063	20,696
Preferred	1,361	1,991	3,147
Number of Employees at End of Year	8,718	8,358	7,858

Air Reduction's 1957 Annual Report—its 42nd, and "Facts About Air Reduction"—a brief description of the company's business, are available upon request. Write to the Secretary.

AIR REDUCTION COMPANY, INCORPORATED

150 East 42nd Street, New York 17, N. Y.

Taxation and National Security

S. A. TESORIERE

THE SOVIET'S IMPRESSIVE ADVENTURES into space, some believe, have tipped the balance of power between the two great power blocs in favor of the East. The Western nations and their nerve center, Washington, have been shocked out of their mutual bed of security and all manner of plans are being initiated to restore the former equilibrium, apparently at any cost if the DANGER is spelled out in capital letters. Ignored thus far has been taxation, rather than taxes, as a cohesive plan to assist in the attainment of national security.

A DIRECTIVE FORCE

The power to tax is the power to direct. Through the medium of taxation the government regulates industry, encourages some, discourages or destroys others; even making possible the conviction of undesirable individuals whose slate is otherwise meticulously clean. All this it accomplishes by affecting the nation's purse strings at the individual taxpayer's level. It is frankly difficult to conceive of any business or human endeavor upon which taxation is not or could not be used as a directive force.

In a time of national crises, highlighted by foreign sputniks revolving in space, we become faced with the immediate necessity of recruiting scientific and technical talent to strengthen the nation's defenses and to supply this body of talent with the necessary funds with which to effectively work. Additional taxes and/or deficit financing have been advanced as the most obvious means of supplying these funds. As for scientists, an accelerated educational system emphasizing mathematics and science will undoubtedly supply the required talent for the future.

But what of today's needs? The luxury of time is no longer with us. It is the immediate present which requires an all-out cohesive drive combining all available scientific strength and the required capital. The latter, without subjecting our economy to the destructive power of further inflation which deficit financing would invite, nor weakened individual initiative which added tax burdens would create. These dire recourses should be relegated to last resort measures only.

RESEARCH AND DEVELOPMENT COSTS

Because missile might carries with it an expensive price tag, which has been translated by the administration as payable in debt and taxes, it presents a rather bleak and exhausting economic future. While the end often justifies the means, I feel that the entire program could be dealt with more satisfactorily by using a principle of taxation advantageously as a directive force, while not impairing its fund raising ability nor destroying the delicate economic balance of the nation and its people.

Stated in its briefest terms, it would require a revision of the section in the law dealing with the very topic of research and development costs. It is suggested that these

costs be eliminated or seriously modified as tax deductions unless these projects or areas of research have been approved by the government as "essential" to our security and progress.

It now falls within the scope of this discussion to attempt to analyze and weigh the effectiveness of this expedient, which on the surface appears to be simple, requiring no major tax revision, while intending to direct scientific personnel, industry, and funds into needed areas of activity.

Under the present tax law research and experimental expenditures in connection with the taxpayers' trade or business can be treated as an expense deductible in the year paid or incurred or on a deferred basis to be deducted over a period of 60 months or more, if such is considered equitable. An election as to choice of treatment is allowed the taxpayer, who then must adhere consistently unless special consent to make a change for all or part of the expenditures is obtained from the commissioner.

TAX SUBSIDY COSTLY

According to our latest published figures, the research and development costs for the United States amounted to \$6.1 billion in the year 1956. For the year 1957 it is anticipated that this figure may be 20% higher, bringing such costs to well over \$7 billion dollars, all essentially for the development of new products. It has been further estimated that only some 10% of these projects result in products worthy of marketing. Those considered marketable necessarily carry heavy advertising budgets to develop consumer palate for them.

Under our present tax structure the United States government is effectively subsidizing industry in these efforts to the extent of about half that amount by allowing full tax benefit to industry for all such costs. The 52% tax bracket for corporations makes the United States a co-partner, sharing in these costs to the full extent of the tax rate. Seven billion dollars for research alone is a figure to conjecture with in times of financial emphasis when we find ourselves subsidizing some 50% of these costs. When to this figure we add the additional expense of marketing new products, the government in effect further extends this subsidy. Can we afford to continue this subsidy at a time when the government is faced with its own costly missile and space research problems?

Eliminating this tax benefit, at least temporarily, would discourage wasteful commercial research unless industry were willing to pursue such projects without governmental tax subsidy—a sacrifice it could not seriously object to in a period of national emergency. Certainly, the nation and its people could well do without newer and larger television sets, squeeze bottles, washer-driers, longer playing records, electronic egg beaters and other push-button improvements of that type.

Possibly of equal import, a serious reduction in these

commercial research programs would release men of scientific and technical training from industry into governmental pursuits which presently require that very type of specialized ability.

PROFIT CONSIDERATIONS

Of course, it may be indicated by some that change is the very life-blood of industry, and that many of these projects result in very profitable products which help fill the treasury tills through taxation. The suggested tax revision of research and development expenses, however, does not necessarily exclude industrial progress. There is nothing to prevent such endeavors from continuing if the company feels such projects are necessary for its own industrial growth. It merely means that such costs would not be deductible for tax purposes. The treatment would be the same as that given to life insurance premiums on the life of an officer of a company which also is not deductible for tax purposes, yet these policies are very much in vogue. Besides, I am quite sure some tax benefit could be allowed in those instances in which a research project becomes income producing, in line with the policy of allowing the matching of costs against income. The idea is simply to reduce wasteful research tying up much needed personnel, resulting essentially in products requiring the marketing technique of making people dissatisfied with what they already have by offering them something new which they have not.

We should not lose sight either that an all-out scientific program of the government utilizing the best available personnel will create security products which once perfected will be leased out to industry for production—a situation which I am sure would compensate profit-wise. Experience has clearly shown that many products created for war production have been turned to serve and better the ways of man in peaceful pursuits. The much-dreaded atomic bomb brought with it atomic and nuclear energy to the benefit of man in peace. Missile and space explorations will undoubtedly bring their peace-time counterparts and use.

INDUSTRY CONTRIBUTES TO SECURITY

Certainly industry will continue to carry on important research and development programs already delegated to it by government for its national security. These projects should and would continue to merit full tax benefit because they would be operating under an "essential" or "certificate of necessity" plan quite comparable to that in operation during the war years with respect to essential defense equipment and the depreciation allowance thereon.

As non-essential research is discouraged, men of industrial and scientific ingenuity would be released from these puerile pursuits and become available to the government for pure and essential research at a time when there has developed a crying need for this type of manpower. Stepped-up educational programs slanted in favor of science are for future scientific personnel recruitment. For the present we should utilize fully our existing staff of scientists wherever they may be.

This much in demand personnel, given proper incentive by government, would be strongly attracted to it, and their salary and laboratories with the proper materials and tools

to work with would be borne substantially by the industry from which they are being released for lack of work. We must remember that for the year 1957 the income tax subsidy to industry approximated \$3.5 billion to carry on industrial research.

All this seems to me a rather direct and efficacious way of meeting an urgent national situation, bringing especially needed manpower together for an accelerated government program. At the same time supplying it with the needed funds without increasing the tax burden nor getting involved with deficit financing, alternatives which may lead to greater problems than they solve.

TAX DIRECTION IN OTHER AREAS

Direction through the taxing power is nothing new to us. In the most recent years we have practiced this art in many ways in order to further the national security. When oil production was considered our paramount need for adequate defense, the government offered favorable tax treatment to oil producers by allowing them to use percentage depletion. This medium made it possible and not unusual for a taxpayer so engaged to recover tax free an amount greater than the cost of the oil properties. A generous tax subsidy to encourage the production of oil properties. It worked well and now that our reserves of oil are so heavy that they present other problems, much discussion in Washington is being leveled at removing this tax prop or subsidy.

While in the throes of World War II when we found ourselves in an all-out struggle for survival, we offered all of industry an opportunity to help in the total effort by producing for war needs. Industry was reluctant and fearful of investing in the costly machinery and tools of war production. Tax direction came to the fore again, offering special tax relief for emergency plant and equipment costs by allowing industry to amortize this property over a period of 60 months instead of the customary estimated useful life of these facilities. A certificate of necessity was issued by the certifying authority located in Washington if he determined that the facility was necessary in the interest of national defense. Also, when it was recognized that the storage of grain in warehouses was an important defense measure these same amortization privileges were extended to cover the construction of grain storage facilities. Tax subsidies to students of higher education are also in effect for the student and the family who are given special tax consideration.

These are but a few instances of directional taxation which could be employed to carry us again over a period of national crises.

CONCLUSION

To summarize, the power to tax could and should be used to direct in the fulfillment of our present demands on the economy. By eliminating or modifying the tax deduction with respect to private research and development costs, unless approved by the government as "essential" to our security, the following aims could be furthered:

1. Reduce wasteful commercial research and experimentation while emphasizing "essential" projects.

2. Release from industry valuable scientific and technical personnel for employment by government in its own projects.
3. Provide approximately \$3.5 billion from industrial taxation by lifting the tax subsidy to help finance our national program.
4. Eliminate or seriously reduce the national budgetary strain required for an all-out scientific effort through this added revenue.
5. Maintain the delicate economic balance and prevent further inflationary tendencies that added and heavy governmental expenditures would create if not compensated by a shift from another segment of the economy.
6. Avoid the necessity of any increase in tax rates to finance this program. Individual and business initiative

can be stifled with excessive rates. Also, the possibility of a wage-price cycle to offset would not be an unlikely prospect.

The program outlined above appears most workable, least burdensome, and immediately effective in its application and accomplishment. It would place the nation in an all-out effort to advance its program of national security while maintaining the nation on a peace-time economy. Business as usual might well be its keynote.

The people of this nation living with the highest standard of living in the universe, with the most modern conveniences at their finger tips, would I am sure be happy to enjoy their present blessings without in any serious sense missing the further advanced products which industry would desist from temporarily in favor of a national defense program.



DIVIDEND NOTICE

The Board of Directors has declared a regular quarterly dividend of 25¢ per share on the common stock of this Company, payable March 31, 1958, to stockholders of record at the close of business March 10, 1958.

R. L. TOLLETT,
President
Big Spring, Texas



1957 Annual Report

Allegheny Ludlum STEEL CORPORATION

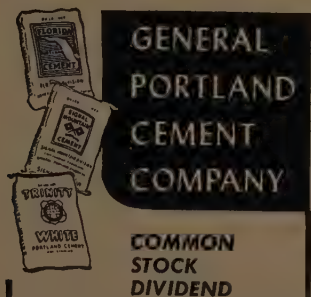
OLIVER BUILDING • PITTSBURGH 22, PA.

REPORT IN BRIEF

1957

Sales and Revenues	\$267,647,586
Net Earnings	11,651,851
Earnings per Share of Common Stock	\$3.02
Dividends per Common Share	\$2.00
Working Capital at December 31	60,278,200
Stockholders' Investment (Net Worth)	107,054,774
Capital Expenditures	16,342,000
Number of Common Stockholders at December 31	19,609

Write for a copy of the 1957 Annual Report



COMMON STOCK DIVIDEND

The Board of Directors of General Portland Cement Company has this day declared a quarterly dividend upon its Common Stock of 45 cents per share, payable March 29, 1958 to stockholders of record at the close of business on March 7, 1958. The stock transfer books will remain open.

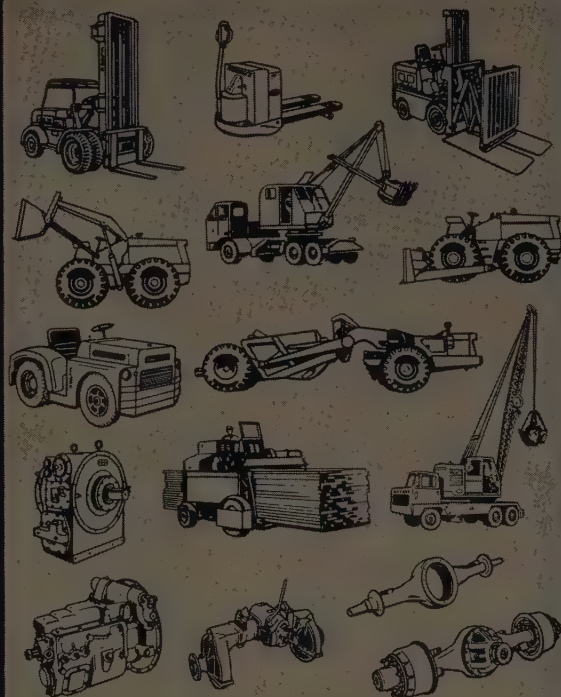
HOWARD MILLER,
February 18, 1958 Treasurer

CLARK[®] EQUIPMENT COMPANY

CONDENSED FINANCIAL REPORT

DECEMBER 31

1957



The Company has mailed to all shareholders as of February 18, 1958, a preliminary report containing the financial statements for the year ended December 31, 1957. The financial report and operating particulars presented here in condensed form have been prepared by the Company from the more detailed financial statements certified by the company's public accountants, Price Waterhouse & Co. Copies of the preliminary report to shareholders are available upon request sent to the Secretary at the home office of the company at Buchanan, Michigan.

CLARK EQUIPMENT COMPANY

George H. Krum
President

SALES, INCOME AND OTHER PARTICULARS FOR THE CALENDAR YEARS 1957 AND 1956

	1957	1956
NET SALES	\$143,063,032	\$145,384,923
Income before federal income tax \$	14,929,396	\$ 18,401,357
Provision for federal income tax ..	6,700,000	9,000,000
NET INCOME for the year ... \$	8,229,396	\$ 9,401,357
DIVIDENDS PAID IN CASH:		
Common stock—\$2.25 per share in 1957 and \$2.125 per share in 1956	\$ 5,142,874	\$ 4,829,180
Preferred Stock—\$5.00 per share	62,095	65,126
TOTAL DIVIDENDS ... \$	5,204,969	\$ 4,894,306
EARNINGS—per share of common stock outstanding (after dividends paid to preferred shareholders) ..		
	\$3.57	\$4.11

Balance Sheet—December 31, 1957

ASSETS		
CURRENT ASSETS:		
Cash	\$11,254,473	
Accounts receivable	15,562,764	
Inventories—at lower of cost or market	37,562,115	
Prepaid expenses	322,720	\$ 64,702,072
INVESTMENTS		9,682,290
LAND, BUILDING AND EQUIPMENT	\$48,897,917	
Less—Depreciation	18,998,771	29,899,146
		<u>\$104,283,508</u>

LIABILITIES	
CURRENT LIABILITIES	\$ 15,402,629
LONG TERM NOTES PAYABLE	31,000,000
CAPITAL STOCK AND RETAINED EARNINGS:	
Preferred 5% cumulative—par value \$100 per share (12,121 shares)	\$ 1,212,100
Common—par value \$15 per share (2,291,010 shares)	34,365,150
Capital in excess of par value of shares	864,000
Earnings retained and used in the business	21,466,677
	<u>\$57,907,927</u>
Less—Cost of 1,288 common shares held in treasury	27,048
	<u>57,880,879</u>
	<u>\$104,283,508</u>

CLARK EQUIPMENT COMPANY • Buchanan, Battle Creek, Benton Harbor, Jackson, Michigan
Chicago, Illinois • St. Thomas, Ontario, Canada

Significance of Price Fluctuations in Securities

NATHAN D. EDWARDS

MARKET PRICES OF SECURITIES constantly fluctuate. They change in different amounts, at different rates and in different directions. The investor must be aware of these changes in order to maintain a satisfactory margin of return on his investment. Most financial reviews of the markets present regular statistics on opening and closing prices, high and low prices, net change in price during the period covered, and volume of sales. These factors are used as "thermometers of business activity." It is generally considered favorable when rising prices in an individual security are accompanied by diminishing volume. The significance of the rising price can be determined by relating the amount of the rise with the price of the security. Some investors can mentally relate these factors with one another to evaluate the significance of their fluctuations.

A sample of fourteen stocks has been selected, representing seven basic industries in the United States. Closing prices on the first and last market days of 1956 are presented in Table I, along with the net change in the price of each security during that period. The data presented are basically the same as those which are available in any financial review of the security exchanges:

Table I

	Jan. 3, 1956	Dec. 31, 1956	Net Change
Aluminum Co. of America (AA)	87-1/2	92-1/8	+ 4-5/8
Kaiser Aluminum Co. (KLU)	40-3/4	45-3/4	+ 5
Atchison, Topeka & Santa Fe (SF)	28-3/4*	26-1/4	- 2-1/2
Union Pacific Railway (UP)	35-7/8*	30-1/4	- 5-5/8
Bethlehem Steel (B)	162-3/4	198-1/2	+35-3/4
United States Steel (X)	56-5/8	73-1/2	+16-7/8
Chrysler (C)	84-1/2	70	-14-1/2
General Motors (GM)	45-1/4	44	- 1-1/4
Douglas Aircraft (D)	87	88-3/4	+ 1-3/4
United Aircraft (UR)	69	89-3/4	+20-3/4
General Electric (GE)	56-3/4	60-1/4	+ 3-1/2
Westinghouse Electric (WX)	58-3/4	57-1/2	- 1-1/4
Philco Radio (PHL)	34	17	-17
Radio Corp. of America (RCA)	46-3/8	35-3/8	-11

*Adjusted for 5 for 1 splits.

DOLLAR GAINS

It is readily apparent from Table I that the largest dollar gain of the year was recorded by Bethlehem Steel. The fact that both United States Steel and United Aircraft produced greater returns per dollar invested is not as apparent.

Philco declined \$17.00 per share during the year. This becomes more significant when stated that the investor who held Philco stock throughout 1956 lost half of his investment during the year.

Atchison, Topeka and Santa Fe closed 2 1/2 (8.7%) below its January 3 price. The investor who followed the price pattern of this issue throughout 1956 might have been attracted at one time during the year by the gains

recorded in Table II. This table presents closing prices of SF and KLU on eight consecutive Mondays in March and April:

Table II

1956	Atchison, Topeka & Santa Fe Price	Kaiser Aluminum Price	Change	Change
March 5	151	41		
12	156	41-1/2	+ 5	+ 1/2
19	157-3/4	45-1/4	+ 1-3/4	+3-3/4
26	159-3/4	46-1/8	+ 2	+ 7/8
April 2	161-3/4	48-1/8	+ 2	+2
9	161-3/8	45-7/8	- 3/8	-2-1/4
16	166	46-1/2	+ 4-5/8	+ 5/8
23	173	49-1/8	+ 7	+2-5/8
Total Gains			+22	+8-1/8

During this period the market was generally strong and capital gains attractive. Both issues covered by the table had attained their highest prices for the year to date at the beginning and again at the end of the sample period. SF recorded a gain of 22 points during the eight-week period. The gain amounts to 15% of its original value. During the same period, KLU recorded a gain of 8 7/8, or 20% of its original value. When charted, the significance of these comparisons becomes more apparent (see Charts 1 and 2). Actual prices per share are plotted on Chart 1. Chart 2 reduces these prices to equivalent dollar investments in the two securities. The two charts show that, although the dollar gain recorded by KLU was less than half that of SF, KLU produced the investor one-third more return on his investment than SF.

EVALUATING RELATIONSHIPS

The procedure for evaluating the true relationships between securities of different market values involves, first, the conversion of absolute prices to their logarithmic equivalents and, secondly, plotting the logarithmic equivalents on standard arithmetic graph paper. The resulting chart will show relative prices. The slope of the curve is readily identified as the rate of change in price. The curve which decreases at the greatest rate is costing the investor the greatest portion of his investment; that which climbs at the fastest rate is the most productive. The task of converting absolute prices to relative prices is greatly simplified by use of a table of logarithms which is expressed in the same fractional units as the market quotations themselves (i.e., eighths or tenths).

The investor's primary objective is to attain maximum return on his capital investment. To achieve this he must be able to distinguish significant price movements. He must relate the performance of his stocks with that of other individual issues on the market. The preceding portion of this article developed a framework for making this type of comparison. The investor is also interested in knowing

Chart 1.

ABSOLUTE PRICES

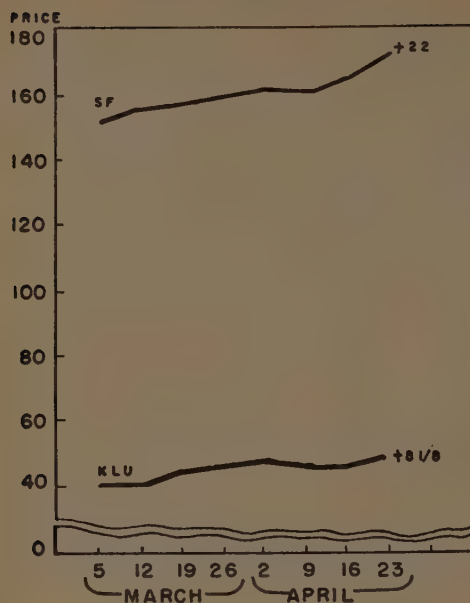
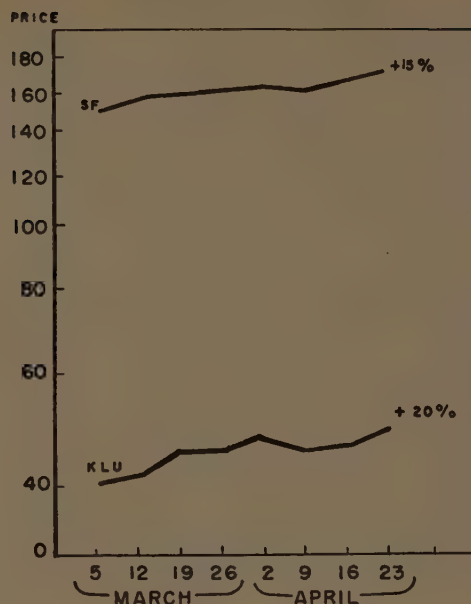


Chart 2.

RELATIVE PRICES



how his holdings compare with the market in general, or with a particular grouping within the total such as industrials, oil stocks, or selected "Blue Chips." This requires the use of some type of measure which can indicate the performance of the broad group. There are two such measures. The first makes comparisons between day-to-day averages of selected issues which are listed on the exchanges without reference to a particular base period. The second uses a base period, representing 100%, and expresses daily prices in terms of the price at that base period. Most of the indices used in market analyses are of the first type. These have been criticized because of weaknesses in the method of computing the averages on which the indices are based.

The foremost weakness is the method of weighting the components of the averages. The components must be weighted or the over-all average will be distorted by the higher-priced issues. It is virtually impossible to assign realistic weights to the various components of a market average, since the components themselves constantly change price, thereby rendering the weights out of date the minute they are applied. The same problem arises when volume of sales or other factors are used for weighting purposes. Some market averages are heavily weighted by stocks which have undergone several splits since the origin of the average, thereby distorting the averages. Occasionally the selection of components used in the average is revised in order

Table III

	Jan. 3, 1956 Price	Log.	Dec. 31, 1956 Price	Log.	Difference Between Logs.	Percent Change
Aluminum Co. of America	87-1/2	1.9420	92-1/8	1.9643	+0.0223	+ 5
Kaiser Aluminum Co.	40-3/4	1.6101	45-3/4	1.6604	+0.0503	+12
Atchison, Topeka & Santa Fe	28-3/4*	1.4586	26-1/4	1.4191	-0.0395	- 9
Union Pacific Railway	35-7/8*	1.5551	30-1/4	1.4807	-0.0744	-16
Bethlehem Steel	162-3/4	2.2115	198-1/2	1.2978	+0.0863	+22
United States Steel	58-5/8	1.7679	73-1/2	1.8663	+0.0984	+25
Chrysler	84-1/2	1.9269	70	1.8451	-0.0818	-17
General Motors	45-1/4	1.6556	44	1.6434	-0.0122	- 3
Douglas Aircraft	87	1.9395	88-3/4	1.9482	+0.0087	+ 2
United Aircraft	69	1.8388	89-3/4	1.9530	+0.1142	+30
General Electric	56-3/4	1.7540	60-1/4	1.7800	+0.0260	+ 6
Westinghouse Electric	58-3/4	1.7690	57-1/2	1.7597	-0.0093	- 2
Philco Radio	34	1.5315	17	1.2304	-0.3011	-50
Radio Corp. of America	46-3/8	1.6665	35-3/8	1.5490	-0.1175	-24
Net Change						-1.4%

*Adjusted for 5 for 1 splits.

Table IV
Conversion of Log Differences to Percent Differences

DIFF BETW LOGS	PER- CENT INCR	DIFF BETW LOGS	PER- CENT INCR	DIFF BETW LOGS	PER- CENT DECR	DIFF BETW LOGS	PER- CENT DECR
+0.2989	+99	+0.1732	+49	-0.0000	-00	-0.3010	-50
+0.2967	+98	+0.1703	+48	-0.0044	- 1	-0.3098	-51
+0.2945	+97	+0.1673	+47	-0.0088	- 2	-0.3188	-52
+0.2923	+96	+0.1644	+46	-0.0132	- 3	-0.3279	-53
+0.2900	+95	+0.1614	+45	-0.0177	- 4	-0.3372	-54
+0.2878	+94	+0.1584	+44	-0.0223	- 5	-0.3468	-55
+0.2856	+93	+0.1553	+43	-0.0269	- 6	-0.3566	-56
+0.2833	+92	+0.1523	+42	-0.0315	- 7	-0.3665	-57
+0.2810	+91	+0.1492	+41	-0.0362	- 8	-0.3768	-58
+0.2788	+90	+0.1461	+40	-0.0410	- 9	-0.3872	-59
+0.2765	+89	+0.1430	+39	-0.0458	-10	-0.3979	-60
+0.2742	+88	+0.1399	+38	-0.0506	-11	-0.4089	-61
+0.2718	+87	+0.1367	+37	-0.0555	-12	-0.4202	-62
+0.2695	+86	+0.1335	+36	-0.0605	-13	-0.4318	-63
+0.2672	+85	+0.1303	+35	-0.0650	-14	-0.4437	-64
+0.2648	+84	+0.1271	+34	-0.0706	-15	-0.4559	-65
+0.2624	+83	+0.1238	+33	-0.0757	-16	-0.4685	-66
+0.2601	+82	+0.1206	+32	-0.0809	-17	-0.4815	-67
+0.2577	+81	+0.1173	+31	-0.0862	-18	-0.4948	-68
+0.2553	+80	+0.1139	+30	-0.0915	-19	-0.5086	-69
+0.2528	+79	+0.1106	+29	-0.0969	-20	-0.5229	-70
+0.2504	+78	+0.1072	+28	-0.1024	-21	-0.5376	-71
+0.2480	+77	+0.1038	+27	-0.1079	-22	-0.5528	-72
+0.2455	+76	+0.1004	+26	-0.1135	-23	-0.5686	-73
+0.2430	+75	+0.0969	+25	-0.1192	-24	-0.5850	-74
+0.2406	+74	+0.0934	+24	-0.1249	-25	-0.6021	-75
+0.2380	+73	+0.0899	+23	-0.1308	-26	-0.6198	-76
+0.2355	+72	+0.0864	+22	-0.1367	-27	-0.6383	-77
+0.2330	+71	+0.0828	+21	-0.1427	-28	-0.6576	-78
+0.2304	+70	+0.0792	+20	-0.1487	-29	-0.6778	-79
+0.2279	+69	+0.0756	+19	-0.1549	-30	-0.6990	-80
+0.2253	+68	+0.0719	+18	-0.1612	-31	-0.7212	-81
+0.2227	+67	+0.0682	+17	-0.1674	-32	-0.7447	-82
+0.2201	+66	+0.0645	+16	-0.1739	-33	-0.7696	-83
+0.2175	+65	+0.0607	+15	-0.1805	-34	-0.7959	-84
+0.2148	+64	+0.0569	+14	-0.1871	-35	-0.8239	-85
+0.2122	+63	+0.0531	+13	-0.1938	-36	-0.8539	-86
+0.2095	+62	+0.0492	+12	-0.2007	-37	-0.8861	-87
+0.2068	+61	+0.0453	+11	-0.2076	-38	-0.9208	-88
+0.2041	+60	+0.0414	+10	-0.2147	-39	-0.9586	-89
+0.2014	+59	+0.0374	+ 9	-0.2218	-40	-1.0000	-90
+0.1987	+58	+0.0334	+ 8	-0.2291	-41	-1.0458	-91
+0.1959	+57	+0.0294	+ 7	-0.2366	-42	-1.0969	-92
+0.1931	+56	+0.0253	+ 6	-0.2441	-43	-1.1549	-93
+0.1903	+55	+0.0212	+ 5	-0.2518	-44	-1.2218	-94
+0.1875	+54	+0.0170	+ 4	-0.2596	-45	-1.3010	-95
+0.1847	+53	+0.0128	+ 3	-0.2676	-46	-1.3979	-96
+0.1818	+52	+0.0086	+ 2	-0.2757	-47	-1.5229	-97
+0.1790	+51	+0.0043	+ 1	-0.2830	-48	-1.6990	-98
+0.1761	+50	+0.0000	+ 0	-0.2924	-49	-2.0000	-99

to present a more representative selection of issues from the exchanges. This renders a comparison of past and future indices invalid.

THE BASE PERIOD INDEX

The index which uses a base period to represent 100% is far more precise than the one which requires the use of averages, although it is limited by the inflexibility associated with "base period" computations. Logarithms can provide an easily computed yet accurate index which to a great extent overcomes this inflexibility. Basically, a logarithmically computed index would reduce all components at the base period to an equivalent investment of \$100.00 in each. This differs from the standard index which weights the components in proportion to their influence on the total at the time of the base period. By reducing all components at the base period to an equivalent \$100.00 investment in each, the percent change at any time after that period will be identical with the dollar change from the adjusted base price during the same period. This fact permits us to add all per cent increases, subtract all per cent decreases, and divide by the number of issues in the entire group to arrive at one index which accurately summarizes the movement of the entire group.

Table I provides a good area for illustrating the logarithmically computed index. Prices in this table were converted to their logarithmic equivalents, and the difference between the beginning (base) and ending logs computed. These are summarized in Table III. The last column in Table III shows the per cent change in the price of each component during the year. These per cents are derived from a conversion table, Table IV. The over-all index is -1.4%.

The preceding computations provide an index, not an average. Hence they require the use of two sets of data, not one. To compute an average of any one set of data, there are two alternatives which are most generally used. First, and most widely used, is the arithmetic average. The popularity of this average stems from its simplicity of computation and interpretation. It has the disadvantage of being distorted by the higher priced issues. The second alternative is the geometric average. This average corrects the distortions which are present in the arithmetic average, though it is more complex to compute than the arithmetic average. It is defined as the n th root of the product of n numbers, and is computed by averaging the logarithms of all components and taking the anti-log of the result.

DATA DERIVED FROM NORMAL DISTRIBUTION

In no instance will a comparison of day-to-day averages provide an index which is more accurate than the index which uses one period to represent 100%. The more the two sets of data deviate from a normal distribution, and the more the per cent changes in price deviate from a normal distribution, the greater the difference between the various types of indices. In the group of stocks selected to illustrate the points discussed in this article, there is a considerable difference between the indices. This difference results from the fact that of the fourteen (14) issues presented, seven (7) sold for less than \$57.00 per share at the beginning of the year; all but one of these lower priced issues recorded losses during the year; all but two of the higher priced issues advanced. This would tend to distort almost any index. The following tabulation compares the indices for the same set of data computed by the three methods discussed:

	1/3/56 Average	12/31/56 Average	Index (% Change)
Index based on arithmetic averages	64	66-3/8	+ 3.7%
Index based on geometric averages	57-3/8	46-7/8	-10.5%
Index using 1/3/56 to represent 100%	..	..	- 1.4%

This comparison illustrates the importance of using a reliable measure of group performance. Without it, it will be impossible to accurately review the performance of one or more issues against the potential of a broad group.

The dollar change in a security does not reflect the amount of return that is realized on a capital investment. This can only be determined by relating the amount of the change with the price of the security. Unless this comparison is made, decisions as to what to buy or when to buy will always be subject to impulsive judgments. In order to review the performance of one or more stocks with respect to a broad group, we must develop an accurate yardstick whereby the action may be measured. Accuracy in an index cannot be guaranteed when the index is based on market averages despite the fact that a geometric average is the most accurate measure of a single set of figures. Accuracy is likely when the index uses one base period to represent 100% and summarizes the movement of all components with respect to that base period.

* * *

1907—August 7 and 8 . . . A great break in the Stock Exchange. Interborough-Metro preferred collapsed from 43¾ August 1 to 20½ August 20. On January 7 it had sold at 75¼. Third Ave. R. R. stock dropped from 104 on January 7 to 46¼ August 27, and in November got down to 16. . . . The railroads began to have recourse to the issue of short-term obligations.—*The Financial Review*.

THE OHIO OIL COMPANY

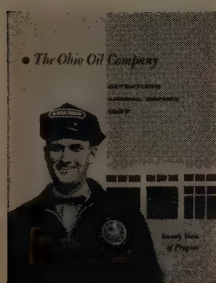
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	1957	1956	How 1957 Ranks In 70 Years	
FINANCIAL				
Net Sales and Other Income	\$291,982,000	\$278,004,000	Highest	
Net Income	\$ 41,490,000	\$ 41,216,000	4th highest	
Per Share	\$ 3.16	\$ 3.14		
Dividends per Share	\$ 1.60	\$ 1.60	2nd highest	
Book Value per Share	\$ 27.12	\$ 25.56	Highest	
Capital Expenditures	\$ 64,799,000	\$ 52,440,000	Highest	
Exploration Expense	\$ 25,149,000	\$ 24,544,000	Highest	
Payrolls	\$ 44,256,000	\$ 41,800,000	Highest	
OPERATING				
Net Crude Oil and Natural Gas Liquids Produced—Barrels per Day	106,625	108,355	2nd highest	
Natural Gas Produced and Sold —Thousand Cubic Feet per Day	290,130	282,284	Highest	
Crude Oil Transported —Million Barrel-Miles	24,469	25,837	4th highest	
Refined Products Transported —Million Barrel-Miles	1,396	1,485	2nd highest	
Crude Oil Refined—Barrels per Day	41,521	42,421	3rd highest	
Refined Products Sold—Barrels per Day	41,634	41,112	Highest	

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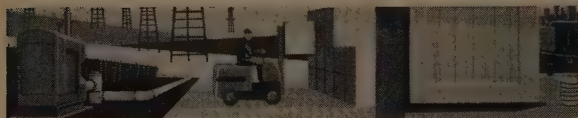
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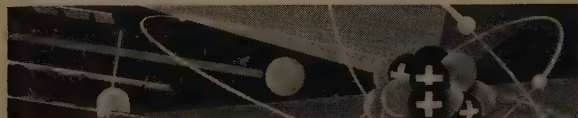
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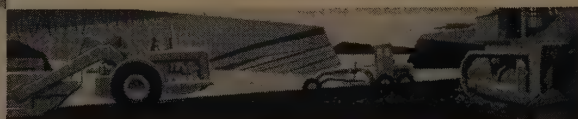
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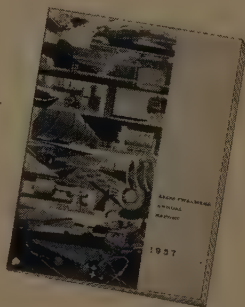
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ALLIS-CHALMERS HIGHLIGHTS

	1957	1956
Sales and Other Income.....	\$537,191,443	\$551,592,589
All Taxes.....	28,489,381	33,822,287
Earnings.....	17,819,251	20,355,045
Earnings per Share of Common Stock.....	2.11	2.42
Dividends Paid per Share of Common Stock.....	2.00	2.00
Shares Outstanding		
Preferred stock.....	103,635	122,899
Common stock.....	8,214,281	8,141,435
Dividends Paid		
Preferred stock.....	465,598	635,857
Common stock.....	16,374,763	16,044,658
Share Owners' Investment in the Business		
Preferred stock.....	10,363,500	12,289,900
Common stock.....	162,055,251	159,852,403
Earnings retained.....	125,108,613	124,129,723
Total share owners' investment.....	297,527,364	296,272,026
Book Value per Share of Common Stock.....	34.96	34.88
Working Capital.....	257,661,251	267,495,462
Ratio of Current Assets to Current Liabilities....	4.07 to 1	3.13 to 1
Number of Share Owners		
Preferred stock.....	655	699
Common stock.....	56,071	47,449
Employees		
Number of employees.....	35,799	38,803
Payrolls.....	187,590,363	194,140,323

Freight in Flight

CASPER M. BOWER

WITHIN A BRIEF SPAN OF TEN YEARS, dating from World War II, the air transport of freight by passenger and all-cargo planes has become "big business." Although freight was flown in the early thirties, it was handled by the airlines primarily as an accommodation to shippers with emergency problems. Little, if any, consideration was directed by airline management toward freight as a possible "money earner." But times have changed.

In 1946 the airlines flew a minuscule 38 million ton-miles of freight, compared with 5.9 billion revenue passenger-miles, indicating a freight to passenger ratio of about 15:1. Ten years later (1956) the scheduled domestic airlines racked up 247 million ton-miles of freight for a smacking increase of 550%. Meanwhile revenue passenger-miles climbed 280% to 22.3 billions, indicating a freight to passenger ratio in that year of 9:1.

These figures are not completely revealing, because they represent freight carried only by passenger planes. The scheduled all-cargo lines such as Slick and Flying Tiger, for example, in 1956 logged 141.6 million ton-miles of freight and the non-scheds an estimated 36 million ton-miles. To this must be added some 51 million ton-miles of premium air express, which thereby lifted the 1956 yearly total to 475.6 million ton-miles of freight, a long haul from the 38 millions flown in 1946.

INVESTMENT IN THE INDUSTRY

While these data are distinctly impressive, the matter of investment in the industry poses several questions:

1. Was this rapid growth, which occurred during a decade of industrial prosperity, merely a manifestation of the business euphoria of the period, or did air freight offer manufacturers measurable dollars and cents distribution economies which offset its substantially higher ton-mile rate over competitive trucking?

2. Will industry continue to use air freight, with its higher per ton-mile rate versus trucks, if and when business activity declines and management, faced with profit margin squeezes, is compelled to shave all "questionable" expenses?

3. Are the over-all, closely knitted economies of air freight's speed in relation to rates sufficiently valid and known to shippers to insure that air freight volume and ton-miles will continue to expand competitively in relation to truck volume and ton-miles?

4. Are the airlines and air freight forwarders pursuing an aggressive educational campaign to bring the competitive advantages of air freight to shippers?

Assuming that air freight is a permanent force in our transportation complex, the next question to be resolved is the means of investment.

There are three areas of possible investment in this industry:

1. The passenger airlines, now actively soliciting air freight, e.g., TWA, United, American, etc., with specific all-cargo planes and schedules, in addition to combination passenger-cargo flights, in which passenger routing requirements take precedence.

2. The all-cargo lines.

3. The air freight forwarders.

The air freight forwarder, providing it is extremely well managed, is in a historically entrenched and unique position to enjoy to the fullest a continuing expansion in air freight traffic with only a minim of additional capital needs. Because of the flexible nature of its operations, the air freight forwarder is able to effect defensive operating economies during a business setback, and thereby preserve a degree of its earnings power.

Yet the airlines are currently faced with operational losses arising from inadequate and still to be resolved rate structures for passengers and freight. Near and long term financial headaches are the vast capital needs (over \$2.0 billions) for new craft and field and safety facilities. In addition, Civil Aeronautics Board's action in approving new competition over heavy traffic routes is bound to arrest, to some degree, the revenue growth of certain of the airlines. In this climate, it would be extremely difficult to select the carrier "most likely to succeed."

The freight forwarder historically has been and is the bridge between the shipper and consignee. Its function is to pick up freight from the consignor and, using available transportation (carrier) means—truck, rail or air—deliver it to the consignee in the shortest time possible. The forwarder's rates to the shipper include its fee, in addition to the actual transportation or carrier costs. This fee is for special services rendered the shipper and the forwarder's full assumption of responsibility for final delivery of the shipment to the consignee.

The Interstate Commerce Commission, which governs surface (not air freight) forwarders engaged in interstate commerce, reported that for the year ended November, 1956, operating revenues of regulated surface freight forwarders totaled \$106 millions after their payment of transportation costs to carriers. It is understood that gross revenues, before carrier payments, of the three largest surface forwarders in 1956 exceeded \$260 million. From these data, it is evident that freight forwarding is a vital phase of freight transportation.

THE AIR FREIGHT FORWARDER

The air freight forwarder, of which about forty-eight have been certified by the Civil Aeronautics Board, functions identically as the surface forwarder. Just as truck and rail transport have individual operational methods in relation to the type of traffic carried, so does air freight. Thus, up to the present, surface forwarders have done little in the

way of assuming responsibility for air freight, although Railway Express Agency is a major factor in air express, which, of course, carried at a rate of 61 cents a ton-mile, is substantially higher than air freight's top price of 22 cents a ton-mile. Whether or not this favorable competitive climate will continue cannot be determined. Forwarders interviewed expressed the opinion that each class of forwarder, like the shoemaker, will probably stick to his last.

The air freight forwarder, in addition to its regular function of assuming full responsibility for pickup and subsequent delivery, capitalizes on the "speed" aspect of air freight by following all shipments via a teletype check along route. This "expedited" service insures the shipper that merchandise will not be unavoidably delayed. The air freight forwarder, warned of impending air tie-ups, will reroute freight even to the extent of using truck or rail if those transportation schedules will insure delivery prior to air.

The typical air freight forwarder derives part of its revenues by consolidating small shipments designated for a particular city at its own terminal, usually at or near airports, into larger shipments and thereby obtains the financial benefits of the lower rate tariffs for bulk shipments.

The permanence of air freight rests on economic forces knitted tightly into a distribution of goods pattern difficult to separate for specific analysis.

COMPONENTS OF DISTRIBUTION

Rapidity of freight movements is of greatest significance. Other components of distribution subject to possible reduction by the elements of "speed and time" are interest on capital tied up in inventories, insurance premiums for goods in transit, costs of damage and pilferage, and packing and packaging costs. The total of these savings, on a per unit or weight basis for those products which, by virtue of value or other yardsticks of measure can be flown, is supposedly equal to or in excess of the differential between the air and truck rates.

Traffic experts maintain that distribution costs, of which transportation is but one component, accounting for about 8% of the selling price, include the above mentioned items. And, with distribution costs taking more than half of the consumer's dollar, the airlines apparently have a cornucopia of strategic selling material to place before top management which still must be educated to these averred economics.

The effectiveness so far of this highly significant speed-rate, educational and selling program conducted by the airlines and air forwarders, is abundantly clear, as suggested by the volume and ton-mile data reported by leading airlines since 1953, and the 1957 freight volume compared with similar periods of 1956. For example, from 1953 to 1956 air freight carried by the scheduled domestic lines rose over 33% and the following 1956-1957 comparative traffic data confirm further sharp percentage gains.

Flying Tiger—"New England traffic was 30 per cent ahead of the volume recorded a year ago and nearly twice as much as it was in 1954."

American Airlines—"During the first four months of this

year (1957) its cargo ton-miles flown was 26.5 millions, against 20.3 millions in the corresponding period of last year."

Trans World Airlines—"Reported its domestic cargo ton-miles in the first five months of this year (1957) were 15% above the total a year ago."

United Airlines—"Cargo traffic in June 1957 exceeded that for any previous May. It totalled 5 million ton-miles, up 36% over the 1956 level."

RECESSION VULNERABILITY

A pressing question to be resolved is air freight's vulnerability to a moderate or sharp setback in business for a protracted period. In the past decade, the upward trend of over-all industrial activity has been arrested but once. This occurred in 1953-1954, as reflected by Gross National Product, which declined from \$363.3 billions to \$360.7 billions and rebounded to \$390.9 billions in 1955. Actually, therefore, air freight statistics of that period are the only means of measuring the inherent strength or underlying weakness of air freight's economic position in our distribution complex.

RATES

In the final analysis, suppliers of goods or services to survive and prosper must maintain a competitive price structure, and where this is above a price level for same or similar goods or services then the disparity must be accompanied by demonstrational economic benefits or true values of a discernible nature. This is the case for air freight.

The following table gives a "rule of thumb" comparison of average freight rates via typical transportation media for a particular shipment of a particular commodity moving between particular points and receiving similar service (door to door):

Service	Rate Per Ton-Mile (Cents)
Air Express	61
Air Freight	
a—Specific commodity	18 (minimum 100 lbs.)
b—General commodity	22 (minimum 50 lbs.)
c—West to eastbound	13-15
Railway Express	13-16
Truck	5-8
Rail	3-6

Some conclusions which can be drawn from these comparative rate data, particularly the relationship between air and truck, are these:

1. Shippers of specific goods and commodities via air freight do derive measurable dollars and cents distribution benefits from the "speed" of transport.

2. These benefits equal or exceed the difference in rates between air and truck for specific goods for specific destination.

3. The cumulative impact of advertising and education of the "true value" aspects of "speed" as a component of rates and distribution, aimed at top echelon management, is achieving definitive results.

It may be noted the quality of equipment and customer

service status of the air freight industry in past years and even today, in many respects, parallels the early rough and tumble days of intercity trucking when operators sought aggressively to capture l.c.l. freight volume from the geographically inflexible railroads but for two disparities:

1. Whereas truck ton-mile rates then were and still are only slightly higher than railroad rates, present air freight rates, ranging from 13-22 cents a ton-mile (depending on direction—freight rates from west to east are lower), are substantially above the truck rate range of 5-8 cents a ton-mile.

2. Truckers captured their volume in exchange for slightly higher rates, primarily on ability to handle l.c.l. freight conveniently from loading platform to loading platform, whereas the airlines are offering shippers new concepts of distribution which rely on "speed" for economies to offset the substantially higher than truck rate structure for air freight.

The following statistics of comparative growth of air freight ton-miles versus truck ton-miles in recent years lend further credence to these findings. And these data must also be weighed to reflect the described air carriers, who with their growth pains certainly created no dynamic inducements for shippers to switch to high-priced air freight from low-priced truck.

The 73% growth in air freight ton-miles (1951-1956), the freight flown by scheduled passenger and all-cargo lines at its higher tariff over truck contrasted to the 26% increase in truck ton-miles for the same period, points most emphatically to the shippers' acceptance of the "economics" of air freight for a specific range of commodities.

THE OVER-THE-HORIZON TON-MILE TARGET

The long-term potential for air freight, of course, is huge. At the present time, while 389 million ton-miles logged in 1956 by the passenger and all-cargo lines were obviously substantially greater than the 38 millions of ten years before, a big chunk of the ton-miles hauled by trucks in intercity traffic, 230 billions, is the real objective.

Ton-Mile Comparison

Air - Truck - Rail

Year	Domestic Air Freight Including Air Express (millions)	All-Cargo (millions)	Truck (billions)	Rail (billions)	Gross National Product (billions)
1956	247.3	141.7	230.0**	656.0**	\$412.4
1955	228.1	107.9	226.2	631.4	390.9
1954	188.3*	76.7	214.6	556.6	360.7
1953	177.9*	88.8	217.2	614.2	363.2
1952	160.8	92.5	184.1	623.4	345.4
1951	143.6	80.9	182.5	655.4	328.2
	+72%	+75%	+26%	....	+26%

*Air freight ton-miles increased in 1954. Air express, however, declined.

**Estimated.

Sources: Distribution Age—August 1957.

The Role of Air Freight in Physical Distribution—Harvard Business School—1956.

70th Annual Report of the Interstate Commerce Commission.

It would be specious to assume that air freight can supplant short-haul intercity traffic. Considering the broad scope of industrial decentralization which has occurred in the recent years, freight movement distance necessarily has been expanded considerably. Hence, it is likely that the trucking concerns are bound to face competition from the airlines for their long-haul intercity traffic. The 1956 air freight of 389 million ton-miles was less than two-tenths of one per cent of the intercity truck ton-miles of 230 billions.

As time goes on airlines will bring air freight facilities to increasing numbers of cities, and the airlines will have to coordinate their activities with truck and even rail. By this coordination and cooperation, every city, town and hamlet can be effectively served by the speed of air freight and manufacturers and shippers can derive the optimum benefits of the speed element of air freight to the pecuniary benefit of the freight carriers.

BALTIMORE GAS AND ELECTRIC COMPANY

Serving one of America's Great Industrial Centers

QUARTERLY DIVIDENDS

Dividends of \$1.12½ a share on the 4½% Preferred Stock, Series B; \$1.00 a share on the 4% Preferred Stock, Series C; and 45 cents a share on the Common Stock, have been declared for the quarter ending March 31, 1958, all payable April 1, 1958, to holders of record at the close of business on March 14, 1958.

J. THEODORE WOLFE, President

Dividends paid on Common Stock without interruption or reduction since 1910.

FEDERAL

FEDERAL PAPER BOARD CO., Inc.

Common & Preferred Dividends

The Board of Directors of Federal Paper Board Company, Inc. has this day, declared the following quarterly dividends:

50¢ per share on Common Stock.

28¾¢ per share on the 4.6% Cumulative Preferred Stock.

Common stock dividends are payable April 15, 1958 to stockholders of record at the close of business March 27, 1958.

Dividends on the 4.6% Cumulative \$25 par value Preferred Stock are payable June 15, 1958 to stockholders of record May 29, 1958.

ROBERT A. WALLACE
Vice President and Secretary

March 14, 1958
Bogota, New Jersey

Dividend No. 55

Interlake Iron Corporation has declared a dividend of 35 cents per share on its common stock payable March 31, 1958, to stockholders of record at the close of business March 17, 1958.



J.P. Pagan
Exec. Vice Pres. & Treas.

Interlake Iron

CORPORATION
CLEVELAND, OHIO

Plants: Beverly, Chicago, Duluth, Erie, Jackson, Toledo

PRESIDENT'S REPORT

From Northern States Power Company and the 4 states we serve



Management-in-depth, development programs add to NSP's stability and progress

Balance sheets don't provide for listing "management-in-depth" as an asset.

Yet it's so characteristic of Northern States Power Company—and so helpful—we consider it among our greatest assets . . . benefiting our customers, employees and shareholders alike.

The photos on Page 2 of this report only begin to illustrate the depth of NSP management. Just as the company is growing, so are its people, due to NSP's basic policy of grooming men for bigger responsibilities—with a planned program for developing the individual at every level, including the executives.

For instance, we continually send people to management training courses. Some of our engineers are back in the university as students, preparing for duties in connection with a 66,000-kw atomic power plant to be built on NSP's system. Across the system, we aim at decentralizing authority so decisions can be made nearer the scene of action. And members of our "management-in-depth" have long been prepared to make those decisions.

Continuity, stability, efficiency—all, we think, are improved by NSP's "management-in-depth."

We're sure this has contributed to NSP's 24 straight years of revenue growth.

. . .

PLANNING AN ATOMIC POWER PLANT...PROMOTING "HOUSEPOWER" FOR HOMES... COUNSELING FOREIGN GOVERNMENTS...JUST ANOTHER DAY TO THESE NSP MEN

PICTURED AT THE RIGHT along with 12 top NSP officers are 15 of the broad management team helping NSP operate more and more efficiently ... helping to increase revenues, and contributing to the growth of the 4-state Northern States Power Company area.

We wish you could meet them all personally, for we believe you'd be impressed by their energy and competence, the scope of their interests and service.

Responsibilities of the executives pictured here range from planning an atomic power plant to promotion of housepower... from development of regional resources to day-to-day operation of all NSP's generating plants.

They're called upon for efficiency—and they deliver it. In operations, for example, NSP's generating plants—with a capability of nearly 1,500,000 kw.—

are producing power each year with less fuel per KWH than the preceding year.

These men are called on for public service — and deliver it. Their activities include leadership in industry organizations ... consultation with Panama Canal engineers; on Missouri and Columbia river dams; even with foreign governments.

These are examples of the executives Northern States Power Company depends on today—and plans on for tomorrow. A corps of executives who are growing, with room to grow—the better to serve NSP's customers and investors.



R. F. PACK
Chairman of the Board



ALLEN S. KING
President



CARL T. BREMICKER
Vice President—Sales



J. A. BUSCH
V. P.—Public Relations



EARL EWALD
V. P.—Operations



D. T. MONTGOMERY
V. P.—Treasurer



G. F. JOHNSON
V. P.—Finance



R. H. ENGELS
V. P.—Asst. to President



CYRUS ERICKSON
General Counsel



JOHN PRENTICE
Secretary



E. K. THORGAARD
V. P.—Mgr. Minneapolis



J. F. OWENS, JR.
V. P.—Mgr. St. Paul

Supporting NSP's top 12 officers, a strong management team of executives like these:



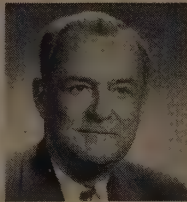
A. L. BURGESS
Comptroller



J. R. FURBER
General Sales Mgr.



R. D. FURBER
Dir. Info. & Adv.



F. J. GLEESON
Dir. of Personnel



A. H. HAMILTON
Mgr. of Purchasing



HIBBERT HILL
Chief Engineer



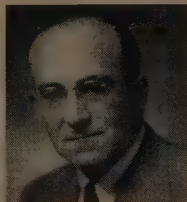
J. W. HOFFMANN
Mgr. Fuel Procurement



A. G. KEELY
Dir. Research, Const., Ins.



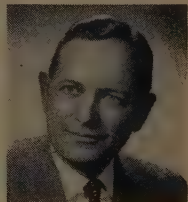
S. F. MCGOWAN
Dir. Area Development



C. N. RICE, JR.
Operations Controller



A. G. SHOGREN
Asst. Comptroller



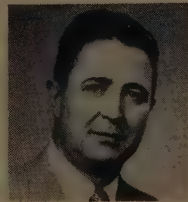
E. C. SPETHMANN
Mgr. Area Pwr. Contracts



H. A. STOKKE
Fin. Accounting Mgr.



L. J. STROMBERG
Mgr. Income Tax Acctg.



E. A. WILLSON
Manager of Operations

THEIR NSP EXPERIENCE totals 498 years; their ages average 53.8. NSP management is a balance of youthful vigor, mature judgment.

Allen S. King

President, Northern States Power Company

ACCELERATED AMORTIZATION

David A. Thomas

Michigan Business Studies, Vol. XIII,
Number 4, University of Michigan
104 pp., \$5

This fine monograph defends the use of "Accelerated Amortization" during periods of international tension. The author indicates that it has been an "inducement for private enterprise to invest in emergency plant facilities during three periods of mobilization in this country." Effects of rapid amortization are influenced by the administrative application of the device.

The effective capacity of national production was expanded in order to meet the defense goals. Great expansion programs were set by war needs. Steel output was enlarged; as was the petroleum refining capacity. The author notes that over sixty-five per cent of the scheduled defense expansion involved basic industries.

Redesigning of plant to accommodate defense demands forced problems of plant extension and general building of equipment. For example, the machine tool industry had not been sustained after World War II because it came to be used largely for civilian production. This created a situation which forced all available capacity to be utilized and new construction entered into to accommodate the immediate demands for defense items. Electric power output, which usually doubles every ten years, had to be extended at a speedier level. Thus a necessary defense program forced more capacity to operate at a high level of production.

Government financial assistance during World War II stimulated industry. Spending and its effects increased consumer incomes. In addition to this, the growing population was shifting to the suburbs, all of which caused new buildings and demands. Two factors were evident, "a greater civilian demand and the government's requirements for the defense mobilization program." This was heightened by the Korean war.

The risk of owning defense facilities was not immediately appreciated.

Nor was it recognized that new construction found itself faced with a high cost factor. Just how controls and highly maintained capacity affected industry is something all thinking people might do well to read and to ponder over the consequences. They may be interested in knowing that "control and allocation of critical materials have an inhibitory effect on expansion for those producers not fortunate enough to be in a privileged position."

Normal depreciation may be interpreted to mean depreciation under usual conditions. It can be substantially less than the "economic cost expiration of the facilities, and that the difference is particularly great in the early years of an asset." Emergency conditions are apt to make the gap larger. Accelerated amortization protects against rapid obsolescence and takes the burden off of the future. The consequences for tax purposes are examined, and the result of tax rate changes are presented. Mr. Thomas concludes that accelerated amortization tends to reduce risk hazards. Moreover, it will induce private industry to participate in mobilization efforts and be of use in periods of strain.

One wonders just how much insurance of this type can ease recessions? This is a study which ought to be a must for thoughtful investors in any field. It is another profound and real contribution of the University of Michigan.

FOREIGN CENTRAL BANKING: THE INSTRUMENTS OF MONETARY POLICY

Peter G. Fousek

Federal Reserve Bank of New York
116 pp., \$1.50

Monetary controls are becoming more and more an admitted safeguard for the economic well being of countries in the free world. Another tool for the tightening or easing of bank reserve requirements lies in changes in commercial bank cash reserve needs. Furthermore, one cannot disregard the "minimum liquidity ratios" established by certain countries. They in addition to cash include government securities, and this immobilizes a segment

In this department are summarized books, articles, and documents of outstanding economic or financial interest.

Helen Slade is the author of the book reviews. She will cooperate with members of the Society desiring source material for JOURNAL articles and for research projects and studies.

of "commercial bank government securities." Other restraints on lending are "informal suggestions" and instructions. In the United States open market operations have become recognized as excellent monetary influencers, as are cash reserve requirements.

The discount rate has a psychological impact as well as its actual influence on the cost of credit, which is, of course, reflected in the commercial bank interest rate. In several countries this influence is often an indication of that which is desired by the central bank. This is especially true in the United Kingdom. In countries such as in Asia and Latin America banks are given the right to impose maximum rates. Countries that have conducted monetary and credit policies in conjunction with budget and debt management have been successful in attaining a balanced expansion.

The purpose and scope of selective controls in foreign countries have been wider than in the United States. This has been the case where directives to commercial banks as well as regulation of their loans are employed. Yet it seems clear that the discount rate, despite obstacles, is a great influence on the adequacy of credit. It is since the war that commercial bank cash reserve requirements are important. After 1930 such reserves began to be regarded as a general monetary policy instrument. Most countries specify higher minimum ratios against time deposits, but these vary in different central banks. Like the United States, a large number of countries do not include "vault cash" in cash reserves.

Reviews

Problems differ in each locale. In some areas it was found that too much reliance on liquidity ratios brought dilemmas. This depends in a great part on their methods of operation. Some central banks linked liquidity ratios to increases in deposits. How this reacted on the economic structure and just where it was found most useful is illustrated. The workings of foreign banking systems as well as our own are fully recorded.

To the many who place reliance on the consideration of monetary policy on the world economic conditions, this book is a windfall. By careful reading of its well-presented facts there will be analysts who can be assured of a greater understanding of world affairs as they influence the progress of industries. Mr. Fousek and the fine research department of the Federal Reserve Bank of New York may regard their contribution with a just pride.

ECONOMIC BACKWARDNESS AND ECONOMIC GROWTH

Harvey Leibenstein

John Wiley & Sons, N. Y.
295 pp., \$6.75

The examination of causes of backwardness of countries as well as their growth are interpreted. Characteristics of underdeveloped areas when fully described can be used as a basis of "simple relationships that connect per capita savings and investment with the level of per capita income" plus the availability of resources per head.

The major portion of the labor force in backward countries is engaged in agriculture, from which the yield is usually low. Investment in agricultural production might bring about more advanced techniques, but the best investment policy seems to be to stimulate industry. The agricultural environment is not conducive to creating new skills, nor does it bring large monetary returns, nor technical inventions and innovations.

If through investment the per capita income may be gradually increased, a further "injection" of capital will go far toward raising consumption habits, which determines what happens to per

capita output. One must remember when planning projects that a significant difference between backward and developed countries lies in their vastly differing capacities to produce goods and services.

Markets for industrial goods have to be created. Growth agents are more likely to be stimulated in an urban, industrial setting rather than in an agricultural environment. For non-agricultural employment opportunities, if created rapidly enough, will bring about sufficient shortage of labor on the land to stimulate the demand for agricultural labor-saving devices. It should "provide the economic climate that is conducive to the expansion" of the general investment market. The populace may become more concerned with enjoying the "fruits of its development" and weigh the importance of current consumption. Timing in investment assumes importance and should be thoroughly examined before engaging in endeavors. Which yardstick to use may be simplified by a careful study of this thought-provoking book.

COMMON STOCKS AND UNCOMMON PROFITS

Philip A. Fisher

Harper & Brothers, N. Y.
146 pp., \$3.50

"Common Stocks and Uncommon Profits" boasts a foreword by Jeremy Clayton Jenks, whose endorsement insures the reader of stimulating and profitable ideas. Most informally written, this is a book for the experienced investor.

Growth stocks are said to offer the greatest opportunities for sizable returns. The best of the growth stocks if held long enough for them to come of age can bring magnificent results. When a company with reasonably certain possibilities has been located it is well to hold its stock for a "long period of time," though keeping in mind that "a mistake" may eliminate expected gains. Such a risk should be undertaken only if the investor is not relying on the funds ventured. For

buyers with more limited capital it might be well to confine themselves to larger and older companies.

The investor, says Mr. Fisher, should formulate a definite program. To do so he sets forth in fifteen points what he considers helpful in leading the buyer of stocks to "a gain of several hundred per cent." Among these suggestions are: Does the company have products or services likely to result in an increase in sales for several years? Research with its results must be evaluated. Profit margins should be examined as to their "expectations for gains." The sales organization ought to be weighed. And the profit margin measured, and looked at with an eye to their continuance. Management, labor relations, and the competitive position of the corporation are factors to appraise, as is the adequacy of the financial arrangements.

There are several other intriguing recommendations, including five "don'ts," which throw light on the advisability of not oversteering diversification.

There are lists of selected shares, and of quite a few companies which have merit.

FEDERAL RESERVE BANK OF N. Y.

ANNUAL REPORT—1957

The annual report of the Federal Reserve Bank of New York for 1957 has a fine account of credit policy at the end of a boom. In it is discussed the expansion of inventories and the fact that they had exceeded the current needs. Consumer spending as reflected in automobile production and home building, with their creation of a large private debt, throws light upon circumstances leading to current credit policies. In it is told how a policy of credit restraint became necessary, as did the following relaxation.

A changing pattern in demand resulted in altered business activity, with the inevitable decrease in capital expansion, caused by a reduction of orders. At the same time came a pressure of borrowers for loanable funds. The results and expectations herein enumerated should make necessary reading for students of finance.

STANDARD OIL COMPANY (INDIANA)

and Subsidiaries Report

Earnings Steady in 1957; Dividends Paid for 64th Consecutive Year; Income Tops \$2 Billion for First Time

PRODUCTION of crude oil and natural gas liquids and of natural gas reached record totals in 1957 despite the sharp decline in domestic crude oil production when the Suez crisis ended. Our domestic production for the year was up 4.3 per cent, substantially more than the domestic industry gain of about 0.3 per cent. A number of concessions were acquired in Venezuela. Our wildcat drilling program was expanded. Our success ratio in unproved areas was considerably above the industry average. Despite record production we were able to increase our proved reserves of crude oil and natural gas liquids, and of natural gas in a year when industry reserves of crude and natural gas liquids declined.

RESEARCH brought about important advances in 1957. The Ultra-forming process was improved. Octane needs can now be met with a catalyst containing only half as much platinum as was previously required. We improved our Isomate process for raising the octane number of the lighter portions of gasoline. We perfected a jet fuel that will meet the needs of future types of supersonic airplanes. Research on greases led to a new line of industrial greases far superior to any on the market. In the oil finding field, advances were made in the use of high-frequency recording techniques. Royalty income from licensing our processes was the highest in many years.

MANUFACTURING. Greater efficiency, cost control and quality improvement were of primary concern in 1957. Our current objective is to replace older and less efficient units where needed with larger, better, and more automated facilities. More economical operations and better products will result.

MARKETING. The introduction of Gold Crown super-premium gasoline and improved Red Crown throughout the parent company territory was a great success, helping the parent company to gain substantially in total volume of gasoline sold. Consolidated company results for the year, however, showed practically no change in sales volume of all products. This was about the same result as for the industry as a whole.

NET EARNINGS of our consolidated Company in 1957 were \$151,509,000, as compared with \$149,432,000 in 1956. The 1957

results were reduced \$5,886,000 by a special charge resulting from abandonment of our synthetic gasoline and chemicals plant at Brownsville, Texas. Per share earnings, based on an average of 35,520,999 shares outstanding during the year, were \$4.27. This compares with \$4.33 a share in 1956, when the average number of outstanding shares was 34,487,352. Total income for the year was \$2,029,689,000, the first time in our history it has passed the \$2 billion mark. This was 6.2 per cent greater than in 1956, an increase due largely to higher revenues from sale of crude oil and refined products.

DIVIDENDS. In line with our policy of paying dividends approximately equal to one-half of earnings, regular cash dividends were supplemented in the fourth quarter with a special dividend in Standard Oil Company (New Jersey) stock. Dividends paid, including the market value on date of distribution of the special fourth-quarter dividend in Standard Oil Company (New Jersey) stock, amounted to \$2.11 per share. Dividends were paid in 1957 for the 64th consecutive year.

CAPITAL EXPENDITURES AND BORROWINGS. Our capital expenditures for the year increased substantially to \$340,274,000. The increase was due to the purchase of concessions costing about \$50,000,000 in Venezuela. These heavy expenditures during 1957 involved no increase in net borrowings, which at 12 per cent represent the lowest ratio to total assets since 1946.

EMPLOYEES. Our continuing efforts to control costs by making more effective use of our manpower led us in 1957 to reorganize parent company sales activities and to streamline various other parent company and affiliate functions. Thousands of our employees are Standard Oil stockholders. The loyal service of our employees is one of the main factors in our continued progress.

STOCKHOLDERS at year end numbered 148,400, an increase of 5,200 over the year before. Our stock continues to be one of the 50 most widely held by the nation's leading investment trusts. In number of stockholders, we rank eleventh among all U. S. industrial corporations and fourth among U. S. oil companies.

CONSOLIDATED STATEMENT OF EARNINGS

For the Years 1957 and 1956

	1957	1956
INCOME:		
Sales and operating revenues.....	\$2,010,114,857	\$1,890,227,573
Dividends, interest, and other income...	19,574,222	21,312,568
Total income.....	\$2,029,689,079	\$1,911,540,141
DEDUCTIONS:		
Purchased crude oil, petroleum products, and other merchandise.....	\$ 959,164,342	\$ 909,613,641
Operating, selling, and administrative expenses.....	654,361,663	597,244,936
State, local and miscellaneous taxes (not including taxes amounting to \$361,380,000 in 1957 and \$326,779,000 in 1956 collected from customers for government agencies).....	59,320,487	52,652,573
Depreciation, and amortization of emergency facilities.....	104,164,438	93,943,392
Depletion, amortization of drilling and development costs, and loss on retirements and abandonments.....	59,538,133	62,119,970
Interest expense.....	9,397,389	9,368,824
Federal taxes on income.....	26,348,000	36,478,000
Minority interest in net earnings of subsidiaries.....	—	687,095
Total deductions.....	\$1,872,294,452	\$1,762,108,431
Net earnings before special charge.....	\$ 157,394,627	\$ 149,431,710
Special charge:		
Loss on abandonment of synthetic gasoline and chemicals plant after applicable tax credit.....	5,885,602	—
NET EARNINGS	<u>\$ 151,509,025</u>	<u>\$ 149,431,710</u>

THE STORY IN FIGURES

	1957	1956
FINANCIAL:		
Total income.....	\$2,030,000,000	1,912,000,000
Net earnings.....	\$ 151,510,000	149,430,000
Net earnings per average outstanding share.....	\$ 4.27	4.33
Dividends paid.....	\$ 56,300,000	55,360,000
Dividends paid per share.....	\$ 2.110	2.307
Earnings retained in the business.....	\$ 95,210,000	94,070,000
Capital expenditures.....	\$ 340,300,000	291,900,000
Total assets.....	\$2,535,000,000	2,425,000,000
Net worth.....	\$2,012,000,000	1,900,000,000
Book value per share.....	\$ 56.26	53.71
PRODUCTION:		
Crude oil and natural gas liquids, barrels per day, net.....	307,500	294,855
Natural gas, thousand cubic feet per day, net.....	1,298,000	1,154,000
Oil wells owned, net (year end).....	10,722	10,451
Gas wells owned, net (year end).....	2,085	1,973
MANUFACTURING:		
Crude oil and natural gas liquids processed, barrels per day.....	648,076	642,343
Crude running capacity, barrels per day (year end).....	714,000	703,500
MARKETING:		
Refined products sold, barrels per day.....	662,676	664,046
Retail outlets served.....	29,370	29,890
Natural gas sold, thousand cubic feet per day.....	1,391,315	1,264,370
Crude oil sold, barrels per day.....	341,594	336,930
TRANSPORTATION:		
Pipelines built, miles.....	175	250
Pipelines owned, miles (year end).....	17,370	17,480
Pipeline traffic, million barrel miles.....	156,500	156,400
Tanker and barge traffic, million barrel miles.....	86,120	94,870
PEOPLE:		
Stockholders (year end).....	148,400	143,200
Employees (year end).....	49,680	52,010
Wages and benefits.....	\$ 370,100,000	358,600,000

* "Dividends paid" include the value on this Company's books of the Standard Oil Company (New Jersey) stock distributed as a dividend. "Dividends paid per share" include the market value of the Jersey stock on date of distribution.

Index to the Analysts Journal for 1957

Compiled by Francis J. Calkins

List of Authors

A

- Adderley, Terence E.
with Hayes, D. A. The Investment Performance of Selected Growth Stock Portfolios: 1939-1955. XIII, May '57, 65-76.
Altschul, Selig
The Airline Challenge — Pitfall or Opportunity. XIII, Nov. '57, 91-94.

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SOHIO BUILDS FOR THE FUTURE

**1957 ANNUAL REPORT
DESCRIBES MAJOR EXPANSION
PROGRAM**

THE COMPANY INVESTED A RECORD \$69.9 MILLION IN 1957 for expansion, modernization, and replacement of facilities. Expenditures included \$27.3 million for construction work on a new, \$40 million, integrated refinery at Toledo, Ohio. With its completion in mid-1958, Sohio will have additional facilities to produce high-octane gasoline and other quality products. The latest developments in technology and automation incorporated in the refinery should result in a high degree of efficiency and economy from this operation.

Expenditures for production activities resulted in promising developments during 1957. In addition to discovering oil and gas production in various areas of continental United States and Canada, Sohio participated in a four-company group that completed four producing wells in 1957 in the Gulf of Mexico, offshore from Louisiana, and was a member of another four-company group that found production in Lake Maracaibo in Venezuela.

Other large expenditures were made in 1957 for refining improvements and for expansion and improvement of marketing facilities with increased emphasis on the building and modernization of service stations.

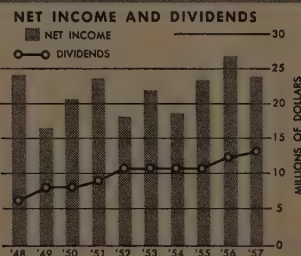
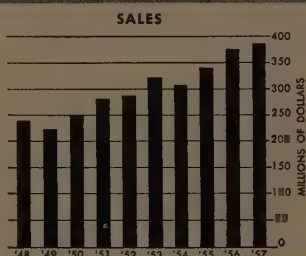
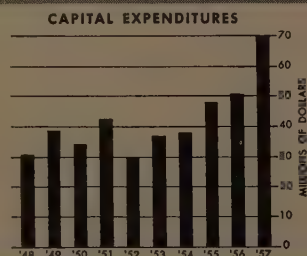
SOHIO'S SALES AND OPERATING REVENUE HIT A RECORD \$377.5 MILLION IN 1957, a rise of 3% above the previous year. Earnings were also at a high level in 1957—the second highest in the Company's history.

HIGHLIGHTS OF THE YEAR

	1957	1956
Sales and operating revenue	\$377,486,875	\$365,686,741
Earnings	23,920,335	26,591,560
Earnings per share of common stock	\$4.79	\$5.35
Dividends per share of common stock	\$2.50	\$2.375

WRITE TODAY for your copy of Sohio's complete 1957 Annual Report. Copies are available upon request to the Secretary.

THE STANDARD OIL COMPANY (An Ohio Corporation)
Midland Building • Cleveland 15, Ohio



ALLEGHENY LUDLUM STEEL CORPORATION

PITTSBURGH, PENNA.



At a meeting of the Board of Directors of Allegheny Ludlum Steel Corporation held today, February 20, 1958, a dividend of fifty cents (50c) per share was declared on the Common Stock of the Corporation, payable March 31, 1958, to Common stockholders of record at the close of business on March 10, 1958.

S. A. McCASKEY, JR.
Secretary



INTERNATIONAL HARVESTER COMPANY

The Directors of International Harvester Company have declared quarterly dividend No. 159 of one dollar and seventy-five cents (\$1.75) per share on the preferred stock, payable June 2, 1958, to stockholders of record at the close of business on May 5, 1958.

GERARD J. EGER, Secretary



Southern California Edison Company

DIVIDENDS

The Board of Directors has authorized the payment of the following quarterly dividends:

CUMULATIVE PREFERRED STOCK,
4.08% SERIES
Dividend No. 33
25½ cents per share;

CUMULATIVE PREFERRED STOCK,
4.24% SERIES
Dividend No. 10
26½ cents per share;

CUMULATIVE PREFERRED STOCK,
4.78% SERIES
Dividends Nos. 1 and 2
34.190 cents per share;
(Dividend No. 1 of 4.315 cents per
share was declared February 10.)

CUMULATIVE PREFERRED STOCK,
4.88% SERIES
Dividend No. 42
30½ cents per share.

The above dividends are payable May 31, 1958, to stockholders of record May 5. Checks will be mailed from the Company's office in Los Angeles, May 31.

P. C. HALE, Treasurer

April 17, 1958



P. Lorillard Company Reports Record Sales and Earnings in 1957

FINANCIAL HIGHLIGHTS

	1957	1956
Sales.....	\$293,415,430	\$203,280,417
Net Earnings.....	\$ 11,484,412	\$ 4,519,758
Results per Common Share:		
Net Earnings.....	\$ 3.78	\$ 1.34
Dividends.....	1.95	1.20
Shareholders' Equity.....	26.95	25.11
Current Assets.....	\$192,202,969	\$153,611,040
Current Liabilities.....	82,399,192	43,365,717
Working Capital.....	109,803,777	110,245,323
Long-Term Debt.....	\$ 54,041,670	\$ 57,333,334
Shareholders' Equity.....	86,674,232	81,438,885
Number of Shareholders.....	26,976	28,557
Number of Employees.....	6,591	4,949

We'll be glad to send you a copy of our illustrated Annual Report for 1957.
Write P. Lorillard Company, 119 West 40th Street, New York 18, N. Y.

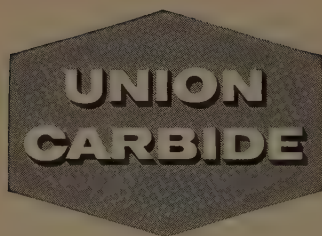
MAKERS OF FINE TOBACCO PRODUCTS



P. Lorillard Company



FIRST WITH THE FINEST CIGARETTES
THROUGH LORILLARD RESEARCH



UNION CARBIDE CORPORATION

1957 Annual Report Summary

	<u>1957</u>	<u>1956</u>
Sales.....	\$1,395,032,817	\$1,324,506,774
Net Income.....	133,740,818	146,233,444
Per Share.....	4.45	4.86
Dividends Paid.....	108,307,512	91,956,493
Per Share.....	3.60	3.15
Earned Surplus.....	605,530,309	580,097,003

Current Assets.....	\$ 639,190,691	\$ 715,406,189
Current Liabilities.....	216,302,892	237,656,800
Total Assets.....	1,456,353,350	1,459,748,536

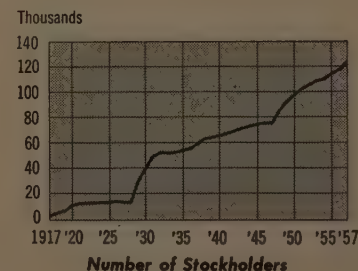
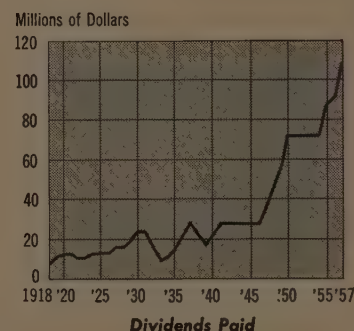
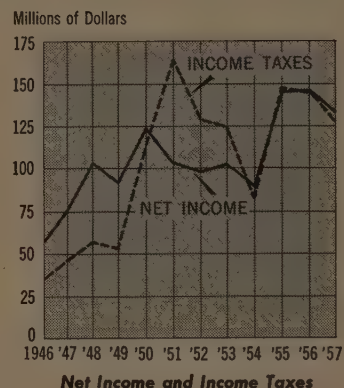
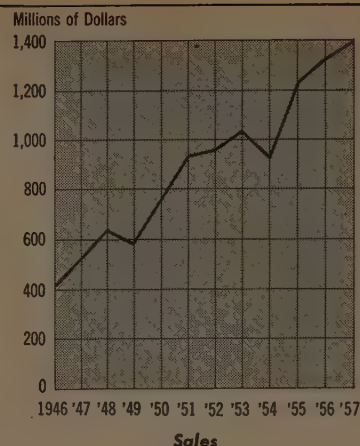
Shares Outstanding.....	30,067,123	30,088,510
Number of Stockholders.....	123,943	118,391
Number of Employees.....	77,000	79,000



Copies of the complete 1957 Annual Report of Union Carbide Corporation will be furnished on request. An illustrated booklet describing the products and processes of Union Carbide also is available. If you wish copies of these booklets, please write to the Secretary, Union Carbide Corporation, 30 East 42nd Street, New York 17, N. Y.

UCC's Trade-marked Products include

BAKELITE, VINYLITE, and KRENE Plastics • VISKING Food Casings • PRESTONE Anti-Freeze
PYROFAX Gas • UNION Calcium Carbide • NATIONAL Carbons • SYNTHETIC ORGANIC
CHEMICALS • HAYNES STELLITE Alloys • EVEREADY Flashlights and Batteries • LINDE Oxygen
PREST-O-LITE Acetylene • VISQUEEN Plastic Film • UNION CARBIDE Silicones • ACHESON
Electrodes • ELECTROMET Alloys and Metals



PULLMAN INCORPORATED

reports
Record Revenues and Profits
for 1957

Highlights from the 1957 Annual Report

The year 1957 was one of record achievement for Pullman Incorporated. Each of its subsidiaries sustained high levels of operation throughout the period with the result that earnings per share were the highest in the corporation's history.

Consolidated revenues for Pullman Incorporated and its subsidiaries for 1957 amounted to \$426,382,586 compared with \$368,130,172 for the previous year. Income before taxes was \$30,455,657 compared with \$23,998,545 a year ago. Consolidated net income after taxes was \$14,801,657 against \$12,651,545 in 1956. This amounted to \$6.67 per share in 1957 compared with \$5.71 a year earlier.

Dividends declared during the year were \$4.00 per share, including the \$1.00 per share extra dividend paid to stockholders on January 6, 1958. The year 1957 marked the 91st year that Pullman Incorporated and its predecessor companies have paid consecutive quarterly cash dividends, the second longest record among all companies listed on the New York Stock Exchange.

During 1957 each of the three operating subsidiaries — Pullman-Standard Car Manufacturing Company, The M. W. Kellogg Company and Trailmobile Inc.—effected improvements in manufacturing practices and instituted further economies and controls designed to improve their overall operations.



PULLMAN-STANDARD CAR MANUFACTURING COMPANY achieved record earnings in 1957. The Company also maintained its leadership in the industry by delivering many more freight cars to the nation's railroads than any other car building firm. Orders for new freight cars, however, did not keep pace with deliveries and the Company entered 1958 with a backlog substantially below that of a year ago. In the light of the current difficulties facing America's railroads, Pullman-Standard anticipates a lower volume of business in 1958 than in 1957 and has adjusted its operations accordingly. However, the Company is geared to take quick advantage of any upward surge in the ordering of freight cars that may take place during 1958.



THE M. W. KELLOGG COMPANY achieved results for 1957 that were most encouraging, with revenues and earnings up sharply over those of 1956. During the year just ended further improvements in manufacturing operations were effected and steps were taken to expand the Company's areas of activities in the fields of engineering and construction.

Considering the amount of work under way, the backlog of business already booked and additional orders expected during the coming year, the outlook for Kellogg appears good and overall earnings should be well sustained or somewhat bettered in the current year.



TRAILMOBILE INC., the truck-trailer manufacturing subsidiary, saw domestic sales volume increased slightly over the high levels attained in 1955 and 1956. A nominal reduction in new trailer sales was more than offset by higher used trailer sales and increased service volume.

Although the backlog at the end of 1957 compared favorably with the previous year-end, the prospects are that the volume of new orders for the early months of 1958 will not equal that of a similar period in 1957. However, gradual improvement is expected during the year. New product and design innovations will become available during the year to stimulate broader sales activity. Also there are external factors in support of increased tempo during the remainder of 1958. These include the potential opportunities in container applications and the acceleration of the Federal highway program.

For a copy of the 1957 Annual Report write:

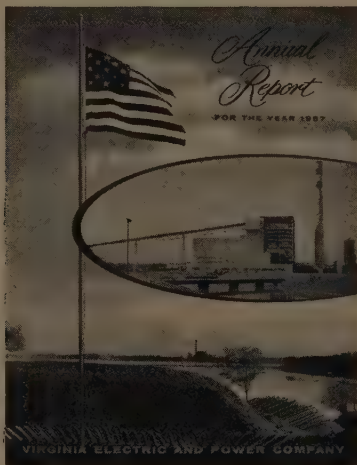
Pullman Incorporated

100 West 10th Street, Wilmington 99, Delaware

ANOTHER RECORD YEAR!

For Virginia Electric and Power Company, 1957 was another year of progress. Production and revenues set new records. Growth was steady and sound.

Below are some of the highlights of this record year. For the complete story of Vepco in '57, write for a copy of the Annual Report.



To obtain a copy of the Annual Report, address requests to the Secretary.

1957 HIGHLIGHTS

	1957	Increase over 1956
Property and Plant	\$574,000,000	\$51,000,000
Operating Revenues	\$129,600,000	\$11,802,000
Balance for Common Stock	\$ 21,716,000	\$ 3,375,000
Earnings per share (14,200,000 shs. 1957—13,200,000 shs. 1956)	\$1.53	\$1.14
Number of Customers	796,000	22,000
Electric Sales—thousands of kwh	6,187,000	656,000
Service Area Peak Load—kw	1,333,000	120,000
Gas Sales—thousands of cubic feet	5,222,000	399,000
Number of Owners of Common Stock	30,500	5,400



**VIRGINIA ELECTRIC
AND POWER COMPANY**
700 East Franklin Street, Richmond, Virginia

BRITISH COLUMBIA POWER CORPORATION, LIMITED

and Subsidiary Companies CONSOLIDATED STATEMENT OF INCOME for the Year Ended 31 December 1957 (with corresponding figures for the year ended 31 December 1956)

	1957	1956
Gross revenue from operations	\$74,594,413	\$68,323,799
Deduct—		
Employment costs, materials and outside services, etc.	\$31,935,410	\$30,837,061
Provision for depreciation	9,966,812	8,402,477
Required for government:		
Provision for taxes on income	8,525,365	9,318,400
Property taxes	3,225,487	2,568,430
Other charges	997,257	950,461
Total operating expenses	\$54,650,331	\$52,076,829
Operating income	\$19,944,082	\$16,246,970
Add—		
Non-operating income:		
Return from temporary and other investments	1,462,597	783,892
Profit through redemption of bonds at less than principal amount	70,463	31,591
Interest charged to construction	2,827,610	2,747,403
Deduct—		
Interest on long term debt	9,924,489	7,039,969
Amortization of discount and expense on long term debt		
Refunded issues	80,208	80,208
Outstanding issues	507,841	315,817
Net income for the year	\$13,792,214	\$12,373,862
Deduct—		
Dividends on shares of subsidiaries owned by the public:		
British Columbia Electric Company Limited	4,160,136	3,618,336
British Columbia Electric Railway Company Limited	49,480	49,281
Earnings for the year on Common Shares of parent company:		
Amount	\$ 9,582,598	\$ 8,706,245
Per share outstanding at year-end	\$2.33	\$2.34

CONSOLIDATED STATEMENT OF EARNINGS EMPLOYED IN THE BUSINESS for the Year Ended 31 December 1957 (with corresponding figures for the year ended 31 December 1956)

	1957	1956
As at the beginning of the year	\$15,260,925	\$12,557,587
Add—		
Earnings on Common Shares of parent company per consolidated statement of income	9,582,598	8,706,245
Excess provisions for prior years' taxes on income	—	391,100
	\$24,843,523	\$21,654,932
Deduct—		
Expenses on issue of Common Shares of parent company	33,330	28,498
Fees to increase authorized share capital of British Columbia Electric Company Limited	—	22,500
Commission and expenses on issue of Cumulative Redeemable Preferred Shares of British Columbia Electric Company Limited	1,021,445	1,420,709
	\$23,788,748	\$20,183,225
Deduct—		
Dividends on Common Shares of parent company	5,616,372	4,922,300
As at the end of the year	\$18,172,376	\$15,260,925

Note:—Copies of the complete Annual Report may be obtained by writing to British Columbia Power Corporation, Limited, 970 Burrard Street, Vancouver 1, B.C.



1957

**greatest year
in history of**

Mountain Fuel Supply Co.

Salt Lake City, Utah

Natural Gas Production, Transmission, Distribution.

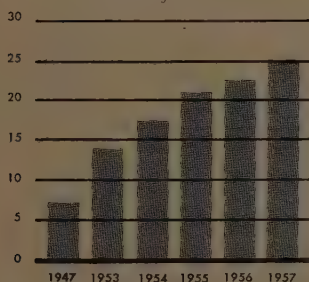
Properties in Utah, Wyoming, Colorado.

**77 communities served in territory with
population of 640,000.**

Brief Comparison	1957	1956
Total revenues	\$26,698,000	\$24,236,000
Net income	3,754,000	3,631,000
Net income per share.....	1.72	1.66
Dividends per share.....	1.20	1.20
Book value per share.....	18.50	17.91
Gas sold (million cubic feet).....	67,854	65,925
Gas customers.....	144,341	135,665

10-YEAR GAS REVENUE RECORD

millions of dollars



Gas supply is obtained from Company's own gas wells in Utah, Wyoming and Colorado, independent producers in the same area, and two pipeline companies.

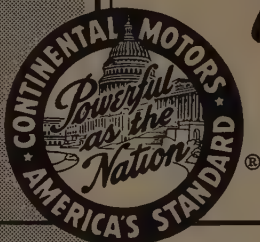
Dividends have been paid each year since organization in 1935. Listed on Pittsburgh Stock Exchange.

*A copy of the 1957 Annual Report will be sent upon request.
Address: Secretary, Mountain Fuel Supply Company, P. O.
Box 989, Salt Lake City 10, Utah.*

MOUNTAIN FUEL SUPPLY CO.

180 East First South

Salt Lake City 10, Utah



Facts and Figures

FROM THE 1957

ANNUAL REPORT

HIGHLIGHTS

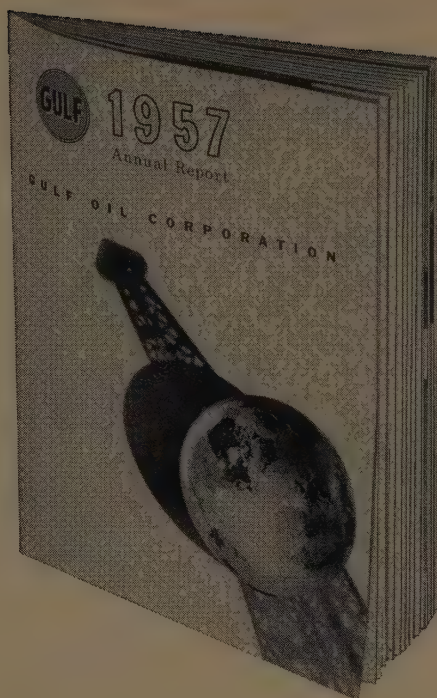
- Continental Motors and its consolidated subsidiaries, Wisconsin Motor Corporation and Gray Marine Motor Company, had net sales of \$135,610,890 in the fiscal year ended October 31, 1957, as compared with \$125,116,269 in fiscal 1956.
- Net earnings per common share more than doubled—from 49 cents in 1956 to \$1.09 in 1957.
- Wisconsin Motor Corporation experienced a good year, following termination of the strike which closed it down from May 2 to August 15, 1956. It produced a normal profit return in 1957.
- Although the \$100 billion highway program has been unexpectedly slow in getting under way, Continental felt its stimulating effect in 1957, and it remains the promising source of engine business in 1958.
- Tests of the multi-fuel hypercycle engine mentioned in the 1956 Report are continuing, and they forecast numerous military, transportation, agricultural and industrial applications for this engine of modern design.
- Production started in late 1957 on two of the small air-cooled Military Standard engines, developed by Continental in collaboration with the Corps of Engineers, United States Army. Additional models are expected to reach the production stage in 1958.
- Military engine production in 1958 will be scheduled in keeping with the 1958 concept of defense requirements.
- The Continental Aviation and Engineering Corporation MA-1A trailer-mounted starter for large jet planes has now passed all qualifying tests and gone into production. Continental Aviation and Engineering Corporation builds the entire unit, consisting of trailer, Model 141 gas turbine air compressor, and controls.
- Continental Motors' air-cooled industrial engine division is going after business in the expanded riding mower field in 1958. It has brought out a new 4-horsepower model in this heavy-duty series, designed expressly for riding mower applications.
- Two new Continental aircraft engines—the G0300-A and the 10470-C—are being added to the production models in 1958. The former, featuring geared propeller, powers the new Cessna 175, due for introduction this Spring, and the latter, the first continuous-flow fuel injection engine, powers the new Beech J-35 Bonanza, just announced.

STATISTICS

Fiscal Years Ended Oct. 31	1957	1956	1955	1954	1953
Engine output (horsepower)	10,549,655	10,783,043	13,876,317	14,659,577	23,073,000
Net sales	\$135,610,890	\$125,116,269	\$145,465,155	\$182,061,693	\$298,438,605
Net earnings	\$3,583,301	\$1,604,924	\$2,502,287	\$4,542,748	\$6,023,812
Net earnings per common share	\$1.09	\$0.49	\$0.76	\$1.38	\$1.83
Dividends per share	\$0.35	\$0.25	\$0.70	\$0.80	\$0.80
Current assets	\$64,454,365	\$59,262,735	\$58,115,700	\$67,362,396	\$104,895,088
Current liabilities	\$30,598,007	\$28,304,638	\$27,553,219	\$35,667,076	\$72,618,572
Net working capital	\$33,856,358	\$30,958,097	\$30,562,481	\$31,695,320	\$32,276,516
Ratio of current assets to current liabilities	2.1 to 1	2.1 to 1	2.1 to 1	1.9 to 1	1.4 to 1
Long-term debt	\$2,480,000	\$2,760,000	\$3,040,000	\$3,320,000	\$3,600,000
Property, plants and equipment (net)	\$16,223,841	\$16,547,581	\$17,219,239	\$16,654,419	\$14,085,545
Stockholders' equity	\$47,557,824	\$45,129,523	\$44,349,599	\$44,157,312	\$42,254,564
Book value per common share	\$14.41	\$13.68	\$13.44	\$13.38	\$12.80

Continental Motors Corporation
MUSKEGON, MICHIGAN

highlights from GULF OIL'S ANNUAL REPORT



1957 was a year of continued growth which has characterized Gulf Oil's history, especially in recent years.

Worldwide, major activities showed healthy gains which added substantially to the Company's financial growth and stability.

At year end, Gulf's assets topped \$3.2 billion and net income exceeded \$354 million—increasing from over \$2.8 billion and \$282 million, respectively, in the year.

Salient figures from our 1957 Report are presented here.

CONSOLIDATED FINANCIAL DATA

	1957	1956
Net Income	\$ 354,284,000*	\$ 282,658,000
Net Income Per Share (based on shares at end of 1957) ..	\$11.38*	\$ 9.08
Cash Dividends Paid	\$ 73,823,000	\$ 69,244,000
Cash Dividends Paid Per Share	\$ 2.50	\$ 2.50
Stock Dividends Paid	5%	5%
Total Assets	\$3,240,571,000	\$2,872,270,000
Sales and Other Operating Revenues	\$2,730,085,000	\$2,339,715,000
Capital Expenditures	\$ 546,453,000	\$ 465,950,000
Depreciation, Depletion, etc.	\$ 252,265,000	\$ 217,185,000

*Includes profit of somewhat less than \$1 per share from sale of Texas Gulf Sulphur Company stock

OPERATIONS DATA—DAILY AVERAGE BARRELS

(Includes Gulf's equity in companies less than 100% owned)

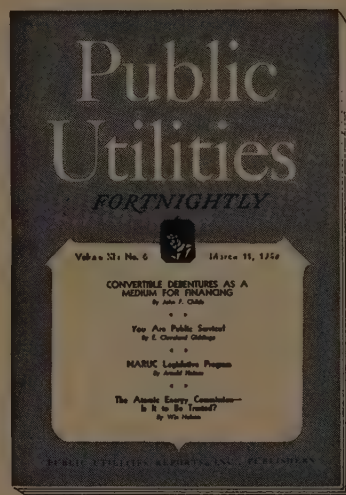
	1957	1956
Gross Crude Oil, Condensate, & Natural Gas Liquids Produced	1,253,775	1,087,097
Net Crude Oil, Condensate, & Natural Gas Liquids Produced	1,151,438	997,452
Crude Oil Processed at Refineries	682,215	667,874
Refined Products Sold	747,198	698,277
Natural Gas Liquids Sold	106,301	111,877

(For a copy of Gulf's Annual Report, write to Room 1300, P. O. Box 1166, Pittsburgh 30, Pa.)

For the

SECURITY ANALYST

*... a primary source
of important information
about the public utility industry*



The FORTNIGHTLY is Published
Every Other Thursday—26 Issues
a Year—Annual Subscription
\$15

Financial Articles

The broader aspects of financial questions are frequently discussed in leading articles, bringing to light the results of major problems in finance. Over a period of more than 20 years, the FORTNIGHTLY has specialized in the important field of regulation and allied subjects pertaining to all branches of the utilities—electric, gas, pipeline, telephone, transit and water companies.

Featured Departments

Departmentalized for convenient reading are these special sections of the magazine which appear regularly: Washington and the Utilities, Exchange Calls and Gossip, Financial News and Comment, What Others Think, Progress of Regulation, The March of Events and Industrial Progress. This material has been found especially helpful to investment interests.

Financial News and Comment

Particular attention is given by the editorial staff to the financial activities of the utility industries. Among the many classifications of subjects covered are: Earnings data, new financing, refundings, forecasts, reorganizations, mergers, sales, regulations relating to financial operations, and statistical reviews, embracing original charts, graphs and special studies.

PUBLIC UTILITIES FORTNIGHTLY

Published by—

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Washington 4, D. C.

MINNEAPOLIS GAS COMPANY

739 Marquette Avenue
Minneapolis 2, Minnesota

Common Stock Dividend

The Board of Directors of Minneapolis Gas Company, at a meeting held on April 9, 1958, declared a dividend of 36¼ cents per share payable in cash on May 10, 1958, to common stockholders of record as of the close of business April 25, 1958.

G. T. MULLIN, President



COMMON STOCK DIVIDEND

The Board of Directors of Central and South West Corporation at its meeting held on April 18, 1958, declared a regular quarterly dividend of forty-two and one-half cents (42½c) per share on the Corporation's Common Stock. This dividend is payable May 29, 1958, to stockholders of record April 30, 1958.

LEROY J. SCHEUERMAN
Secretary

CENTRAL AND SOUTH WEST CORPORATION

Wilmington, Delaware

REGULAR QUARTERLY DIVIDEND

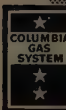
The Board of Directors has declared this day
COMMON STOCK DIVIDEND NO. 35
This is a regular quarterly dividend of

25¢ PER SHARE

Payable on May 15, 1958
to holders of record at close
of business April 18, 1958.

Milton C. Baldridge
Secretary
April 3, 1958

THE COLUMBIA GAS SYSTEM, INC.



*Look who's reading
an Annual Report!*



"Yes, your Dayton Power and Light Company report came—and I got interested. I never realized before all the things DP&L does to help customers. And, Henry, DP&L women stockholders outnumber men 7,230 to 4,718!"

"Perhaps they had women like you in mind when they put out this report. I see they're building more generating capacity—plus acquiring land for the future—and have a nuclear reactor program. They're really going to town!"

YES, DP&L IS "GOING TO TOWN!" We serve a million people in a prosperous 24-county area of West-Central Ohio. The growth of this diversified farming and manufacturing area has been steady... and our job is to build ahead. The coupon below will bring you a copy of our annual report.



Send for your free copy

The Dayton Power and Light Company

25 North Main, Dayton 1, Ohio

Please send me a copy of your 1957 Annual Report.

NAME

STREET

CITY ZONE STATE

AJ 558

A DIVERSIFIED

WESTINGHOUSE AIR BRAKE COMPANY

Reports Record Sales

WABCO



For copy of this report consult
your broker or write direct to
Westinghouse Air Brake Company,
Three Gateway Center,
Pittsburgh 22, Pennsylvania.

From 1957 Annual Report (in thousands)

	1957	1958
Net sales	\$236,977	\$214,653
Income before income taxes	24,601	23,378
Income taxes	12,513	11,454
Net income	12,088	11,924
Dividends paid	5,017	4,997
Retained earnings	7,071	6,927
Working capital	96,515	92,020
Shareholders' equity	106,614	99,309
PER SHARE		
Net earnings	2.89	2.86
Dividends	1.20	1.20
Shareholders' equity	25.49	23.80
Number of shareholders	39,162	38,915

DIVERSIFICATION—RESEARCH PRODUCT DEVELOPMENT

EXPANSION OF FOREIGN AND DOMESTIC MARKETS

These are the keys to WABCO'S continued growth and stability. The Company looks forward with assurance, confident that it can maintain steady growth and the stability that is evidenced by an unbroken record of dividend payments each year since 1875.

WESTINGHOUSE AIR BRAKE COMPANY **WABCO**
Three Gateway Center, Pittsburgh 22, Pennsylvania
serving industry and government

RAILROAD • CONSTRUCTION • MINING • PETROLEUM • AGRICULTURE



AIR BRAKE DIVISION

Air brake equipment and accessories for railroads, subways and other traction systems.



UNION SWITCH & SIGNAL DIVISION

Traffic control systems, signaling and communication equipment for railroads and industry, relays and other control components.



INDUSTRIAL PRODUCTS DIVISION

Remote pneumatic control systems.



LE ROI DIVISION

Portable, stationary and self-propelled air compressors, rock drills, one-use bits and internal combustion engines.



LeTOURNEAU- WESTINGHOUSE COMPANY

Construction and earth-moving equipment — rubber-tired tractors, bulldozers, SwitchMobiles, scrapers, rear dumps, graders, loaders and wire rope.



GEORGE E. FAILING COMPANY

Portable rotary drilling rigs for the petroleum, water, mining and construction industries.



MELPAR, INC.

Military electronics — research, development and production.



Over-all operating costs of our Rockmart, Georgia, plant will be reduced 20% by the new raw and finish grinding installation and raw material handling facilities indicated here.

New kiln installed at our Nashville, Tennessee, plant reduces fuel consumption about 35%. Other cost-saving improvements are being completed here.

1957

The Marquette year

Emphasis shifts from expansion to improved operating efficiency

Now that new cement producing capacity has overtaken present and near-future demand in both our marketing area and the nation, we are accenting plant modernization to raise operating efficiency and lower production costs. In 1957 we replaced older sections in two plants and this year a major improvement program has been undertaken at another plant.

Cement consumption in our 18-state market dropped 7% in 1957, in line with the countrywide trend. Nevertheless, both our shipments and dollar sales were up and net income was substantial. For 1958 we are hopeful that increased slab laying on the nation's new highways may serve to regain the volume loss suffered by the industry last year.



Large scale modernization

1958 authorizations for capital expenditures

Rockmart, Ga., plant	\$3,702,190
Nashville, Tenn., plant (to complete)	1,008,670
Superior, Ohio (stripping shovel) ...	1,345,000
Cape Girardeau, Mo., plant	235,000
Replacements and miscellaneous improvements at all locations	1,555,400
New raw material deposits	179,670
	\$8,025,930

Estimated portion to be expended in 1958

MARQUETTE Cement MANUFACTURING COMPANY

Operating ten cement producing plants in Illinois, Iowa, Ohio, Missouri, Tennessee, Mississippi, Georgia and Wisconsin

Annual capacity 16,500,000 barrels

We will be pleased to send you a copy of our 1957 Annual Report on request

Financial Highlights

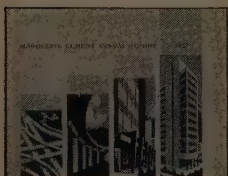
	1957	1956
Net sales	\$47,750,482	\$43,558,363
Net income*	7,306,933	7,376,467
Earned per common share	2.71	2.74
Common shares	2,625,000	2,625,000
Common dividends		
Total for the year	1.40	1.30
Annual rate at year end	1.40	1.40

*Not including possible tax savings from expanded depletion allowances.

Executive Offices

20 North Wacker Drive

Chicago 6, Illinois



SALES:

Sales of both gas and electricity were substantially higher than in 1956, and gross revenues passed the half billion dollar mark for the first time. These gains were achieved despite a decline in housing starts in our service area and warmer than normal temperatures which depressed sales for gas heating.

NET EARNINGS:

Net earnings available for the common stock amounted to \$58,284,000, or \$702,000 more than in the previous year. Because of the greater average number of shares of common stock outstanding during the year, however, per share earnings on this basis declined from \$3.46 in 1956 to \$3.41 in 1957. Based on the number of shares outstanding at the end of each year, per share earnings increased to \$3.41 in 1957 from \$3.37 in the previous year.

GAS SUPPLY:

Perhaps the most significant development of the year was the announcement that the Company planned to take the lead in organizing a project to transport natural gas from the Province of Alberta in Canada directly to the California market. This decision reflected our desire to have an independently controlled supplemental source of gas from outside the state, with the objective of bringing the gas directly from the producer to the consumer at the lowest possible cost.

CONSTRUCTION:

Construction activities were greatly expanded during the year. At the year-end we had 685,500 kilowatts of electric generating capacity under construction, most of which will be completed by the end of 1958.

A major project to be started in 1958 will be the first of two 325,000 kilowatt steam-electric generating units to be added to our Pittsburg Power Plant. These units will be twice the size of any now in service on the system. The first is planned for completion in 1960 and the second in the following year.

Expenditures for construction in the postwar period will pass the two billion dollar mark late in 1958. The continuing need for large amounts of capital for our construction program makes it essential that we have a level of earnings that will enable us to compete successfully in the capital markets.

EARNINGS OUTLOOK:

In view of the fact that the Company was required to absorb substantial increases in costs without rate relief during most of the year, it is believed that we did quite well to hold earnings close to those of the previous year. Some increases in gas and electric rates were authorized late in the year and, with an application pending for a further increase in gas rates, we are very hopeful that a better level of earnings can be realized in 1958.

ATOMIC POWER:

Another event of great importance was the completion, in association with the General Electric Company, of the Vallecitos Atomic Power Plant. While our turbine-generator installation at the plant is only 5,000 kilowatts, we believe it is of considerable significance that, through our interconnected electric network, our customers are now receiving

atomic power from the world's first all-privately financed nuclear-electric plant.

On February 18, 1958 the Company made a proposal to the Atomic Energy Commission to install and operate a 60,000 kilowatt atomic power unit, to be located at its existing Humboldt Bay Power Plant near Eureka. Because of advances in the design and technology of the boiling-water reactor, based on knowledge gained in the successful operation of the General Electric-P.G. & E. Vallecitos Atomic Power Plant, it is believed that the cost of power to be produced will approximate that from a conventional plant at the site selected. Eureka is a relatively high cost fuel area and there are other factors which make atomic power economically feasible there ahead of other areas in the Company's service territory.

TAXES:

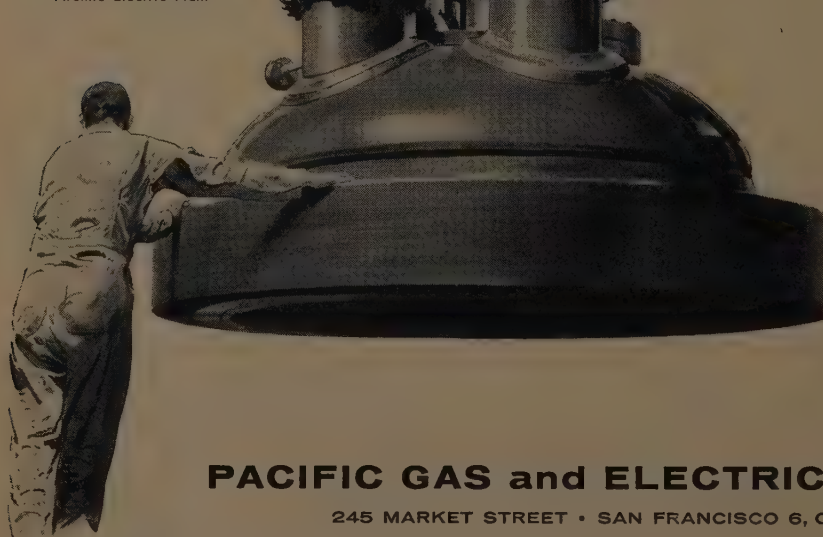
The attention of stockholders has been directed from time to time to the heavy burden of taxation borne by the investor-owned utilities and their customers. Taxes are the largest single element of cost in providing service to our customers. To provide an equitable tax structure and needed revenues, tax laws should be extended to reach large segments of property and income which now escape taxation. One particularly flagrant example is the government-owned utilities which now are accorded virtually complete exemption from taxation. No possible justification exists for continuing this subsidy, which is in effect being paid out of the pockets of other taxpayers.

For The Board of Directors

[Signature]
CHAIRMAN OF THE BOARD

[Signature]
PRESIDENT AND GENERAL MANAGER

Installing Reactor Pressure
Vessel Head—Vallecitos
Atomic Electric Plant



For additional information on this vital western company write our Treasurer, K. C. Christensen, 245 Market St., San Francisco 6, for a copy of P. G. & E.'s Annual Report.

PACIFIC GAS and ELECTRIC COMPANY

245 MARKET STREET • SAN FRANCISCO 6, CALIFORNIA

A Report From National Steel Corporation

As Chairman George M. Humphrey and President Thomas E. Millsop have pointed out, the operations of National Steel Corporation in 1957 were naturally affected by the downturn in the demand for steel and reduced general business conditions that developed during the year. This trend became pronounced in its latter months.

Particularly affected were the automotive and lighter lines of steel products to which a high percentage of National's capacity is devoted. Despite this generally unfavorable background, 1957 was a year of positive results including:

Net sales totaling \$640,967,342—a record exceeded only by 1956's all-time high sales volume.

The third largest tonnage in the Company's history with 5,326,425 tons of ingots.

Substantial completion of the current expansion program involving an approximate expenditure of \$500,000,000.

Acquisition of a new subsidiary, Enamelstrip Corporation, of Allentown, Pennsylvania.

INCOME AND DIVIDENDS

Net income after taxes and other charges in 1957 totaled \$45,518,884, equal to \$6.13 per share of capital stock. Dividends of \$4.00 per share were paid. Total dividends amounted to \$29,667,767 and \$15,851,117 was retained in the business.

Total disbursement for wages, salaries and employee benefits increased to an all-time high of \$198,589,029. The average number of employees in 1957 was 27,444.

The federal, state and local tax bill was \$56,045,963 with taxes continuing to exceed net earnings by a wide margin.

There was an increase in the depreciation, depletion and amortization provision to \$46,266,264 from the preceding year's \$45,344,338.

BUILDING PROGRAM

The current phase of National's expansion and improvement program, started in 1952, has embraced all branches of the business from raw materials to finished products and is now substantially completed. A large part of the huge cost has been paid from funds generated within the business. These funds were supplemented by financing by additional bonds issued in the amounts of \$15,000,000 in 1952 and \$55,000,000 in 1956. It is anticipated that no further long-term financing will be required in order to complete the program.

As a result of this great project, Mr. Humphrey and Mr. Millsop said:

"Our facilities have been raised to the highest level of efficiency in the history of our Company. When demand for steel increases we are now ready to fully utilize our enlarged steel making capacity with standards of quality and cost which are unsurpassed by anything in the steel industry."

Promising continued emphasis on National's two most important lines, namely tin plate and allied products and all kinds of flat rolled steel used by the automotive and a great many general appliance and construction businesses, Mr. Humphrey and Mr. Millsop said:

"We believe in the continued growing public demand for the products we and our customers make and in the vital and growing part in the future which they will play in American life. We will continue to devote our efforts to excel in the production and quality of these products."

1957: A SUMMARY

	1957	1956
Net sales.....	\$640,967,342	\$664,251,090
Net earnings.....	45,518,884	52,502,422
Net earnings per share.....	6.13	7.09
Total employment costs.....	198,589,029	194,604,451
Total dividends paid.....	29,667,767	29,568,645

National Steel Corporation

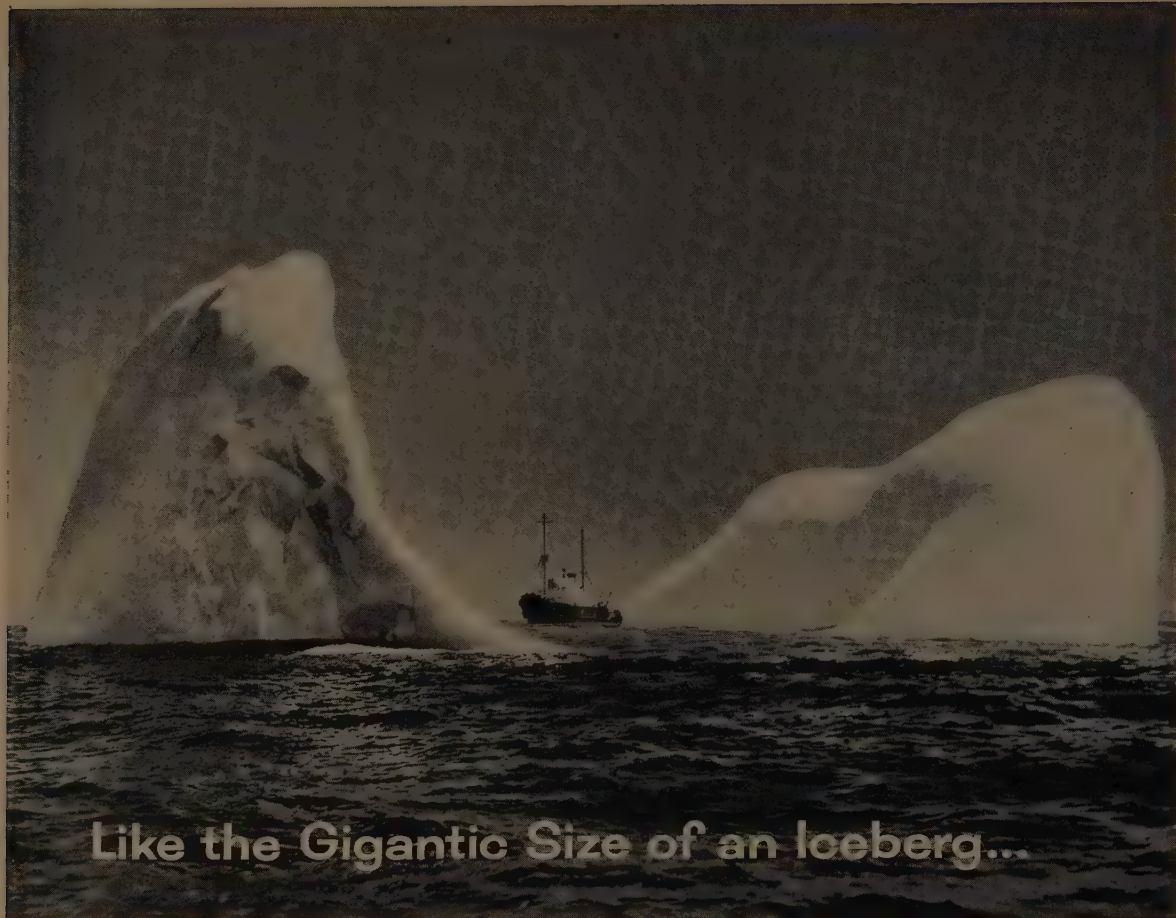
GRANT BUILDING



PITTSBURGH, PA.

Owning and Operating

Weirton Steel Company • Great Lakes Steel Corporation • Stran-Steel Corporation • The Hanna Furnace Corporation • Hanna Iron Ore Company
National Mines Corporation • National Steel Products Company
Enamelstrip Corporation



Like the Gigantic Size of an Iceberg...

**there's more to Cities Service
than meets the eye!**



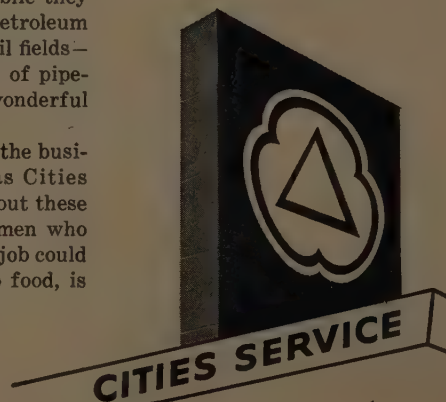
Mammoth as it may appear to the eye, an iceberg is normally eight times the size of its visible portion. Seven-eighths lies submerged and unseen beneath the surface.

Few spectacles of nature are so awesome as the iceberg. Hundreds of yards in length, it rises 100 feet or more above the sea, with crests or minarets spiring higher to 200 and even 300 feet.

Yet, only about one-eighth of an iceberg's mass rides in view. The great bulk lies hidden in the ocean depths.

Similarly unseen by most of the public they serve are the far-flung facilities of petroleum enterprise—towering derricks in the oil fields—mighty refineries—thousands of miles of pipeline—fleets of ocean-going tankers—wonderful modern laboratories.

Costly? Yes—the capital invested in the business of a major oil company such as Cities Service exceeds a billion dollars. Without these facilities and the skilled men and women who operate them, the American petroleum job could not be done... and petroleum, next to food, is America's most vital product today.

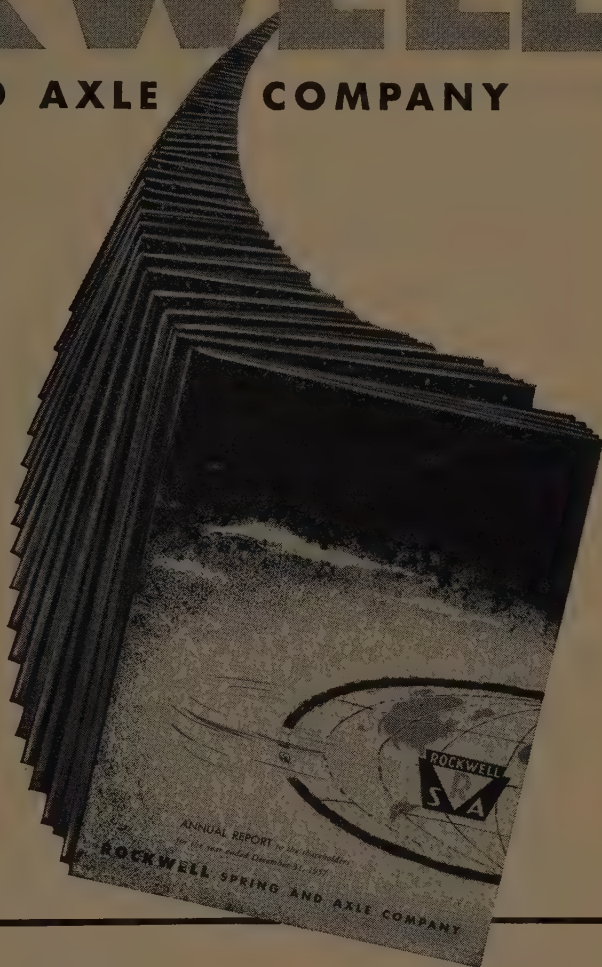


ROCKWELL

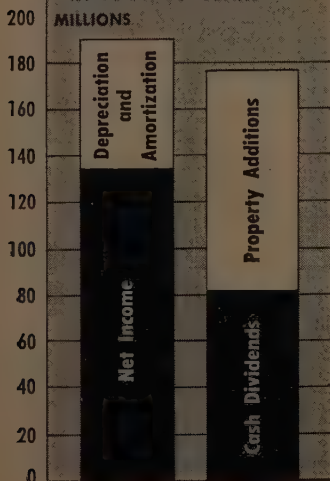
SPRING AND AXLE COMPANY

Reports second highest earnings to more than 30,000 shareholders

- Earnings up 33% to \$15.8 million
Sales up 5½% to \$263.5 million
- \$2.00 cash dividend supplemented by two 2% stock dividends
- Completed \$95 million, 10-year modernization and expansion program paid for out of funds generated internally.
- Financial position strong—no long term debt or current borrowings
- Foreign expansion reported as Company "looks beyond its domestic horizons to world-wide markets"
- Further expansion plans outlined



\$95 MILLION CAPITAL EXPENDITURES AND \$81 MILLION DIVIDENDS MORE THAN COVERED BY FUNDS GENERATED IN PAST 10 YEARS



NAME CHANGE PROPOSED

Company management has asked the more than 30 thousand shareholders to approve changing the corporate name to **ROCKWELL-STANDARD CORPORATION**. This will serve to eliminate present restrictive product names and provide a name that will encompass any foreseeable expansion or acquisition.

ADDITIONAL STOCK REQUESTED

Shareholders have also been asked to approve an increase in the Corporation's authorized capital stock from 6,000,000 shares to 7,500,000 shares. The additional 1,500,000 shares would be available for further expansion or acquisition, or for additional capital or stock dividends.

Ask your broker for copy of our Annual Report or request it from



ROCKWELL SPRING AND AXLE COMPANY
CORAOPOLIS, PENNSYLVANIA

ROME CABLE CORPORATION

76th Consecutive Dividend

The Board of Directors of Rome Cable Corporation has declared consecutive Dividend No. 76 for 25 cents per share on the Common Stock of the Corporation, payable March 28, 1958, to holders of record at the close of business on March 14, 1958.

GERARD A. WEISS, Secretary
Rome, N. Y., March 4, 1958



AMERICAN ENCAUSTIC TILING COMPANY, INC.

Manufacturers of Ceramic
Wall and Floor Tile

COMMON STOCK DIVIDEND

Declared April 16, 1958

15 cents per share

Payable May 29, 1958

Record Date May 15, 1958

America's Oldest Name in Tile



GOULD- NATIONAL BATTERIES, INC.

Manufacturers of a complete line
of automotive and industrial
storage batteries.

A REGULAR QUARTERLY DIVIDEND

of 50c per share
on Common Stock,
was declared by the
Board of Directors on
April 14, 1958 payable
June 14, 1958 to
stockholders of record
on June 3, 1958.

A. H. DAGGETT
PRESIDENT

ST. PAUL, MINNESOTA

TOLEDO EDISON'S

Annual Report

REFLECTS NEW GROWTH IN NORTHWESTERN OHIO

For the year 1957, despite the general downward turn in business, Toledo Edison is pleased to report significant gains. Again, kilowatt hour sales growth was exceptionally well balanced.

To keep ahead of area growth and to further improve our ability to serve, Toledo Edison spent \$14.7 million in 1957 and is spending \$18 million in 1958 to expand its facilities.

A generating unit now under construction will add another 135,000 kilowatts to our outstanding Bay Shore Station, already one of the nation's most efficient.

These plans for continuing expansion reflect Toledo Edison's confidence in the future of its 2500-square-mile service area, and continued progress toward ever-greater operating economies. For full facts, write for a copy of the annual report, just released.



WRITE TODAY
FOR YOUR COPY

RESULTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31 . . .	1957	1956
	THOUSANDS OF DOLLARS	
OPERATING REVENUES	\$42,449	\$40,323
OPERATING EXPENSES		
Fuel	8,597	7,467
Other Operations	8,877	8,394
Maintenance	2,887	2,701
Depreciation	3,981	3,826
General Taxes	3,600	3,186
Federal Income Taxes	5,817	6,106
Total Operating Expenses	\$33,759	\$31,680
Operating Income	8,690	8,643
OTHER INCOME	81	173
Gross Income	\$ 8,771	\$ 8,816
INCOME DEDUCTIONS		
Interest on Long-Term Debt	\$ 2,348	\$ 2,327
Interest Charged to Const.		
(Credit*)	317*	79*
Other Income Deductions	192	43
Total Income Deductions	\$ 2,223	\$ 2,291
Net Income	6,548	6,525
PREFERRED DIVIDENDS	1,333	1,333
Earnings on Common Stock	\$ 5,215	\$ 5,192
Earnings per Common Share	\$ 1.01	\$ 1.01

THE TOLEDO EDISON COMPANY

SERVING NORTHWESTERN OHIO

TOLEDO 1, OHIO

The ANALYSTS JOURNAL

PUBLISHED

by

THE

NATIONAL FEDERATION

OF

FINANCIAL ANALYSTS

SOCIETIES

Contents

Articles and transcripts of speeches of particular interest to Security Analysts.

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THE ANALYSTS JOURNAL. Check for \$ enclosed.

Name (please print)

Firm

Street

City, Zone No., State



Concrete...For Better Highways

These concrete support piers will carry an elevated portion of the new Richmond-Petersburg Turnpike. Soon cars and trucks will be streaming along this concrete super-highway, a segment of Virginia's Inter-State Highway System.

Southern Materials Company, Inc., supplied 750,000 tons of sand and gravel for this project alone. Additional millions of tons will be needed as Virginia's highway construction program progresses providing faster, safer, more comfortable travel for motorists.

Concrete...Better In Every Way!

For Our Company Review
Write: "Review"
P. O. Box 420
Norfolk, Virginia

SOUTHERN MATERIALS CO., INC.



Headquarters: NORFOLK, VIRGINIA

"Hmmm...
I'd say Texas Gas
is the very
picture of growth"

Texas Gas Transmission Corporation has completed a decade of progressive growth. Serving a substantial portion of Mid-America, the company continues to expand and diversify with its vital market area.

To investors, customers and the natural gas industry, Texas Gas truly represents sound, well planned growth designed to meet the demands of an increasingly important area of the Nation.

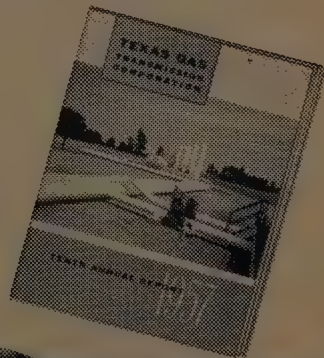


TEXAS GAS

TRANSMISSION CORPORATION

General Offices: Owensboro, Kentucky

The Texas Gas Annual Report for 1957 is available upon request to the general offices of the company in Owensboro, Kentucky.



Confidence

in the growth of the Americas

*Symbol of Service
Throughout the World*



THE GRACE ORGANIZATION

W. R. GRACE & CO., backed by more than a century of experience in business and industry, continues to move ahead—in chemical processing and manufacturing . . . in basic industries throughout Latin America . . . In world trade, ocean transportation and finance.

THE CRYOVAC COMPANY DIVISION
DAVISON CHEMICAL COMPANY DIVISION
DEWEY AND ALMY CHEMICAL COMPANY DIVISION
DEWEY AND ALMY OVERSEAS COMPANY DIVISION
FOSTER AND KLEISER COMPANY DIVISION
GRACE CHEMICAL COMPANY DIVISION
GRACE LINE INC.
GRACE NATIONAL BANK OF NEW YORK
GRACE RESEARCH AND DEVELOPMENT DIVISION
LATIN AMERICAN PAPER AND CHEMICAL GROUP
PACIFIC COAST DIVISION
POLYMER CHEMICALS DIVISION
SOUTH AMERICAN GROUP

In 1957 the net earnings of W. R. Grace & Co. declined for the first time in five years, despite record sales and revenues. Among factors contributing to the decline were heavy developmental expenses and start-up costs, which are laying the foundation for the Company's future growth.

Grace's long-range development program is based on confidence in the continued economic growth of the Americas. During 1957 substantial progress was made in strengthening three of the Company's important lines—chemicals, paper in Latin America and ocean transportation. We are working in 1958 on plans and programs for further development in the years ahead.

Details on the operations of the Company's major divisions and subsidiaries and Grace's plans for the future are covered in the latest Annual Report.

Highlights of the Year's Operations

Year Ended December 31, 1957	1957	1956
Sales and Operating Revenues	\$459,727,553	\$438,136,637
Net Income After Taxes	\$ 15,459,247	\$ 19,785,020
Per share of common stock (Based on average number of shares outstanding)	\$ 3.31	\$ 4.41
Preferred Dividends Paid	\$ 928,664	\$ 936,498
Common Dividends Paid	\$ 10,540,586	\$ 9,828,042
Per share—At rate of	\$ 2.40	\$ 2.30
Net Working Capital	\$120,631,720	\$108,137,879
Current Ratio	2.5 to 1	2.2 to 1
Net Fixed Assets	\$207,546,424	\$163,888,582
Stockholders' Equity per Common Share	\$ 47.70	\$ 46.91
Number of Common Stockholders	24,539	21,178
Number of Employees	42,100	44,800

If you would like a free copy of the Annual Report, write W. R. Grace & Co., 7 Hanover Square, New York 5



W. R. GRACE & CO.

Executive Offices: 7 Hanover Square, New York 5

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R. J. Reynolds Tobacco Company

Makers of
Camel, Winston, Salem & Cavalier
cigarettes
Prince Albert, George Washington
Carter Hall
smoking tobacco

QUARTERLY DIVIDEND

A quarterly dividend of 90 cents per share has been declared on the Common and New Class B Common stocks of the Company, payable June 5, 1958 to stockholders of record at the close of business May 15, 1958.

W. J. CONRAD,
Secretary

Winston-Salem, N. C.
April 11, 1958

Newport News Shipbuilding and Dry Dock Company

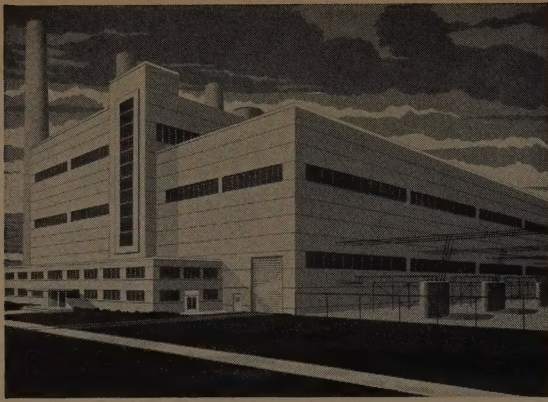
Quarterly Statement of Billings, Estimated Unbilled Balance of Major Contracts and Number of Employees

Billings during the period:	Three Fiscal Months Ended	
	March 24, 1958	March 25, 1957
Shipbuilding contracts	\$ 25,544,876	\$ 24,433,310
Ship conversions and repairs	4,684,979	10,099,597
Hydraulic turbines and accessories	844,671	560,469
Other work and operations	2,536,532	4,218,848
Totals	\$ 33,611,058	\$ 39,312,224
Estimated balance of major contracts unbilled at the close of the period	At Mar. 24, 1958 \$412,801,144	At Mar. 25, 1957 \$383,909,565
Equivalent number of employees, on a 40-hour basis, working during the last week of the period	12,422	13,527

The Company reports income from long-term shipbuilding contracts on the percentage-of-completion basis; such income for any period will therefore vary from the billings on the contracts. Contract billings and estimated unbilled balances are subject to possible adjustments resulting from statutory and contractual provisions.

By Order of the Board of Directors
R. I. FLETCHER, Financial Vice President

April 23, 1958



ONE OF WORLD'S LARGEST—New \$150 million steam-electric generating plant, being built on Alabama's Coosa River, 40 miles southeast of Birmingham by Southern Electric Generating Company, newly formed subsidiary of Alabama and Georgia Power Companies. Substantial economies will result from use of low cost fuel in this 1,000,000 kilowatt plant.

The Southern Company's Annual Report Reflects

NEW STRIDES IN SOUTHERN PROGRESS

WHEREVER YOU LOOK in the great Southeast, there are new signs of progress. New developments in industrial expansion, in business activity, and in home building daily create new demands for electric power. It is the welcome responsibility of The Southern Company, through its operating affiliates, to supply electric power to meet these ever-increasing needs, and to plan ahead for the future . . . *to keep a step ahead of new strides in Southern progress.*

Highlights of The Southern Company System's Operations in 1957

SALES OF ELECTRIC ENERGY were nearly 18 billion kilowatt-hours, up 11% from sales in 1956.

CUSTOMERS—More than 1,450,000 customers were served directly at the year end, an increase of 80,000, or 6%, during the year.

CONSTRUCTION EXPENDITURES amounted to \$125,000,000, largest amount in any year of the system's history.

OPERATING REVENUES of \$254,500,000 were about \$27,000,000 above those of the preceding year.

CONSOLIDATED NET INCOME of \$34,800,000 exceeded that for 1956 by about 16%. The earnings on shares outstanding at the end of the year amounted to \$1.65 per share, as compared to \$1.53 per share in 1956 on about 1,500,000 fewer shares outstanding at the end of that year.

DIVIDENDS of \$1.10 per share were paid during the year in four quarterly amounts of 27½¢ each. Dividend payments in 1956 were \$1.00 per share.

*Write for a copy of
the Annual Report*



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Georgia Power Company Atlanta, Georgia	Mississippi Power Company Gulfport, Mississippi
Southern Electric Generating Company Birmingham, Alabama	

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A MANAGEMENT REPORT



SINCLAIR CHEMICALS . . . MADE FOR MODERN LIVING



by JOHN A. SCOTT, President
SINCLAIR CHEMICALS, INC.
a subsidiary of

"Sinclair's approach to petrochemicals is a selective one. We concentrate on large volume chemicals produced by upgrading low value refinery materials. These are chemicals used by the growing industries keyed to modern products, such as the synthetic fiber and plastics pictured here. Our approach has worked well. A new unit Sinclair Refining Company is building will, with existing facilities, make us the *world's largest marketer* of paraxylene, an ingredient of fibers and plastic films. We are now supplying the main component of a new plastic from the nation's *first commercial* high-purity propylene plant. With judicious market studies and imaginative process research, we are building our products list. Sinclair anticipates a profitable chemical future."

SINCLAIR OIL CORPORATION • 600 FIFTH AVE., NEW YORK 20, N.Y.